Draft December 1997

Guide on Revolving Funds

Policy Application and Accounting Issues

Prepared in Collaboration

Public Works and Government Services Canada and

Treasury Board Secretariat

TABLE OF CONTENTS

1000 Foreword

This guide explains key concepts necessary to create and operate a revolving fund. It also provides advice and guidance to program managers, financial officers and other interested parties in dealing with many of the issues they may encounter when establishing, operating or winding up a revolving fund.

This guide will help readers to:

- determine what a revolving fund is;
- establish a revolving fund;
- understand the financial statements that are necessary ;
- address specific items;
- address specialized topics; and
- prepare documents required for revolving funds.

This guide was developed on principles stated in the *Canadian Institute of Chartered Accountants (CICA) Handbook* and the *Public Sector Accounting and Auditing (PSAA) Handbook*. Revolving fund entities should use generally accepted accounting principles (GAAP) and policies applicable to government departments, unless otherwise stated in this guide.

This guide complements the Treasury Board Policy on Special Revenue Spending Authorities (such as net voting and revolving funds). It is not the intention of this guide to cover subject matter contained in other guides or government policies. Appendix A of this guide includes a chart showing the division of responsibilities and authorities for an organization using a revolving fund.

To help readers understand the abbreviations used throughout the document, there is a list of them included in Appendix B. Appendix C includes a reference to other documents related to revolving funds.

Several individuals deserve recognition for the development and completion of this guide. Members of the team that developed the guide include the following people:

From Public Works and Government Services

Government Operations Services Branch

Jean-Daniel Hubert
Frank Tkalec (Project Manager)

From Treasury Board Secretariat

Financial contract and Assets Management Sector

Mike McNamara
Bernard Ouellet (Project Manager)
Len Polsky
Les Pratt
Lise Prévost

Students: **Alan Richter** and **Patricia Trudel**

The developers of the guide would also like to thank **Norm Everest**, **John Denis**, Treasury Board Secretariat, Government Accounting Policy Division and **Ross Christian**, Public Works and Government Services Canada, as well as others who have generously provided their advice and specific comments which have greatly improved this document.

2000 What is a revolving fund?

A revolving fund is a continuing or non-lapsing authorization by Parliament to make payments out of the Consolidated Revenue Fund (CRF) for working capital, capital acquisitions and temporary financing of accumulated operating deficits. The use of this authority will be granted for an approved purpose and will be subject to such terms and conditions as the Treasury Board may direct. It is an authorization to draw on the CRF, not a segregation of cash. A revolving fund is a means by which Parliament provides continuing authorization for an operation that is funded completely by users, or partly by users and partly by subsidization (the latter usually taking the form of an annual appropriation.

- the rational for using a revolving fund is to provide a funding mechanism which has a business orientation (functions like a line of credit) for units providing goods and/or services on a commercial or quasi-commercial basis. In such and operating environment revolving funds should promote good business practice by: fostering a “going concern” mentality.... managers must continually maintain a medium to long perspective on operations, as operating deficits must be covered off by draw-down that incur interest charges;

- requiring business case for new investment.... the lifecycle cost of fixed assets and other investments should be recovered over the useful life of the assets;

- making managers responsible for the full costs of operations, e.g. employee benefits costs;

- necessitating a business case for subsidy....where less than full cost is recovered the case must be made on “public interest grounds”;

- more comprehensive accounting and reporting .... adherence to Generally Accepted Accounting Principles;

- achieve financial targets in a specified period, as outlined in the business plan; and

- monitor and disclose these results using appropriate and meaningful performance indicators.

Revolving funds increase revenue opportunities by consolidating all sources of funding into a non-lapsing authority and by providing drawdown authority so that organizations can better manage their financial requirements. They also optimize resource use, resulting in better resource management and decision making.

When a revolving fund finances a unit that serves the public, it is called an enterprise fund. However, when it finances a unit that primarily provides support services to other units of government, it is called a common services fund.

There is a fundamental difference between revolving fund activities and private sector equivalent activities. A revolving fund unit generally has a mandate to recover full costs[1] and to maintain drawdown levels that correspond to the amounts shown in the business plan. The objective of a private sector entity is to maximize profits.

The Treasury Board Policy on Special Revenue Spending Authority governs the establishment and operation of revolving funds.

Management of the revolving fund unit will provide the Treasury Board with an annual business plan subset of departmental business plan including financial statements and a performance measure report. The revolving fund unit will follow GAAP and related government policy requirements when presenting and disclosing the fund’s financial business activity.

To report the amount of the used and unused revolving fund’s authority, the revolving fund unit will use accrual accounting to complement modified cash accounting used by the responsible department.

2100 Special operating agencies that use a revolving fund

Special operating agencies (SOAs) are operational organizations within existing departmental structures that provide services using a more private sector approach. An SOA quite often negotiates greater flexibilities in administrative and personnel policy matters through written agreements with the host department and Treasury Board Secretariat (TBS). Most SOAs use revolving funds as their financing mechanism.

A revolving fund is a funding mechanism that also promotes a more business-like service delivery. Only business units that recover part or all of their costs may use a revolving fund. For this reason, only organizations that are primarily self-financing will be able to choose a revolving fund as a funding mechanism.

---

[1] Costs comprise the economic value of all resources used to provide a good or service. In addition to annual cash outlays, costs include non-cash outlays such as amortization of capital assets and cost of capital. Expenditures, on the other hand, are primarily cash outlays incurred in a particular period.

The SOA delivery mechanism is sometimes coupled with a revolving fund as an intermediate step toward the privatization of the organization.

In January 1996, the Canadian Centre for Management Development published a paper called *Special Operating Agencies: Financial Issues*. This paper provides a comprehensive picture of the SOA in the current government environment.

All the legislative financial rules that apply to a department also apply to its SOA(s).

The financial presentation and disclosure requirements for an SOA will depend on the nature of the economic environment in which it operates. Under a regular appropriation or a net voting authority, disclosure requirements are minimal. However, if the SOA uses a revolving fund as its financing mechanism, presentation and disclosure requirements are more extensive, as described in this guide.

3000 Financing a revolving fund

Revenues from goods and services sold or provided are the main sources of funding for a revolving fund business unit.

A revolving fund unit is also granted a certain amount of statutory authority to drawdown on the CRF. The expenditures made out of the CRF shall not at any time exceed the amount of the drawdown authority.

Although Parliament establishes a net drawdown limit for each revolving fund entity, annual expenditures of each fund are approved by the Treasury Board in the Annual Reference Level Update (ARLU). This amount is shown in the Estimates as a statutory item (for information purposes). The managers of the revolving fund unit are responsible for forecasting the fund's net cash requirement—which is the difference between revenues (calculated on a cash basis) and expenditures (calculated on a modified cash basis) of the revolving fund unit—and advising the Treasury Board accordingly.

The approval process will spell out the financial obligations of the host department responsible for the revolving fund, in the following situations, when:

- the revolving fund exceeds the use of the annually approved drawdown authority; and
- the revolving fund is being wound up.

3100 Measuring the performance of a revolving fund

Performance targets will include both quantitative aspects (such as budgets) and qualitative aspects (such as uninterrupted service). Quantitative targets will indicate the financial performance of each business line of the organization. For example, information regarding the cost of self-sufficiency, consisting of revenues from customers less expenses, must be provided for each business line of the entity. The business plan should indicate the reasons why the organization believes the baseline targets are attainable.

In preparing the performance measure report, management will compare the actual amounts shown on the financial statements to the planned or budgeted amounts shown in the financial statements that form part of the annual business plan. Use of financial measurement techniques to track ratios over time will provide data for analyzing trends.

For the first year of operation, performance targets will consist of those contained in the financial and operational projections found in the prospective financial statements. For subsequent years, the measurements to be taken and the targets to be attained should be confirmed with the Treasury Board Secretariat, to ensure that the annually updated business plan reflects these criteria.

The measurements will require interpretation in the context of the overall environment in which they were taken. To keep the measures within management context and operational perspectives, notes on significant information or events will be presented along with the performance measures. For example, references may be made to such issues as

- major business events;
- major acquisitions; and
- seasonal factors.

4000 Establishing a revolving fund

Departments must have approval to charge fees for their goods or services. The department should have implemented a costing system, before they consider establishing a revolving fund unit. Next, allowing sufficient time before the date set to begin operating a revolving fund unit, the establishment criteria in this guide should be used to focus discussion on the relevant issues. Then, the revolving fund business case will be discussed with the Treasury Board Secretariat.

Once management and the program analyst at the Treasury Board Secretariat agree that a revolving fund unit is the most appropriate funding mechanism for the business lines identified by the department, the following documentation will be prepared by the host department:

- a charter document (the operating charter);
- a business plan covering the financial and business lines' objectives over a period of three to five years;
- a Treasury Board submission seeking approval of authorities related to operating the revolving fund as well as of the terms and conditions related to managing it; and,
- appropriate financial statements, including an opening *pro forma* balance sheet.

The minister and the deputy head of the host department will be responsible for the management of the revolving fund unit in accordance with the authorities and the terms and conditions approved by the Treasury Board.

4100 Criteria

The Treasury Board Secretariat has developed various criteria to determine if the organization should be financed through a revolving. fund It will use other criteria to periodically assess and reaffirm the continued appropriateness of the use of a revolving fund entity. (*See Section 4400, Operating Environment.*)

Establishment criteria

Responsible departmental management should consider the following list of criteria to help decide whether a revolving fund is the appropriate funding mechanism to support the delivery of the program identified.

Criteria	Issues to consider
Purpose of the fund	Identification of multiple business lines Full or almost full cost recovery Full financial disclosure (all costs direct and overhead, whether charged or not, are to be reported against the revolving fund. Non-costed items are to be shown as a note to the financial statements) Extra flexibility (e.g. purchase of capital assets) Increased efficiency in operation Autonomy of service (optional vs. mandatory) Transition to commercialization In the public interest and public mandate
Mandate	Stable mandate or continuous operation Support of established objectives of the program
Clients	Identifiable clients and activities (internal and external to government) Goods and services that are provided primarily for the benefit of specific individuals or groups who pay the full or almost full cost of the services provided Opportunity to influence costs - Market Consultation Review
Funding sources	Department has legal authority to charge fees Portion of the operation that relates to the public purpose mandate which may be funded through appropriation Subsidies (types and justifications for each) Revenues that do not always relate directly to expenses (e.g. royalties and licence fees are generally not appropriate as a funding source) Proceeds from disposal of asset (subject to agreement with TB)
Revenues and expenses by business lines	Revenues and expenses that are closely related and used for intended business lines Absence of cross subsidization between business lines Well-established cost and pricing structures to ensure stable fees Full costing or capitalization
Cost effectiveness and optimal resource use	Best value for money for government and users Mechanisms for controlling costs within mandatory services or monopoly positions e.g. performance indicators, price and volume variance analysis

Criteria	Issues to consider
Optimization of good business practices	Client-oriented environment to meet current and future demands Better management of revenue (a surplus in one year can offset a deficit in subsequent years or future capitalization) Strategy to meet the projections of the approved business plan within a given time frame Capacity to meet cash requirements as indicated in the business plan Full disclosure of costs (direct, overhead) Clear management accountability Improved cash management through timely pay back of the drawdown authority on the CRF, which is interest bearing
Better decision making on major capital expenditures	Ability to access funds in the year when it is more cost effective to acquire capital assets
Size	Resource requirements that are large enough to warrant the administrative and accounting costs of such an operation

4200 Authorities required

The establishment of a revolving fund entity requires an authority to spend revenues collected and the authority to drawdown on the CRF up to a specified amount. The authority to charge a fee to the users of facilities or services, or to the beneficiaries of limited rights and privileges is approved separately from the authority to establish a revolving fund. The authority to charge a fee is generally approved before the authority to establish a revolving fund.

As part of the charter document and business plan, departments must submit requests for the authorities required to operate such a unit to the Treasury Board. The authorities conferred by Parliament continue from year to year until amended. The Treasury Board Policy on Special Revenue Spending Authorities and this guide provide more details on the requirements for establishing and operating a revolving fund.

4210 Authority to spend revenue

The organization may obtain the authority to establish a revolving fund unit with a statutory drawdown limit through an Appropriation Act, the *Revolving Funds Act* or a program departmental legislation. In these instances, the vote wording should specify that the minister must make expenditures out of the CRF in accordance with the terms and conditions approved by the Treasury Board, for the purpose of delivering a specific program under the department’s mandate. Furthermore, the vote wording will specify that these expenditures, less revenues shall not exceed the statutory drawdown authority, which is limited to the amount approved in the Annual Reference Level Update.

An Appropriation Act to establish a revolving fund and the Treasury Board’s approval of associated terms and conditions, provide spending and management authorities. These authorities relate to the mandate of the appropriate minister and of the Treasury Board. A proposal to establish a revolving fund that would expand a minister’s powers, duties or functions, or that would change the meaning of revenue that the revolving fund may claim, must go to Parliament as separate legislation—either as an amendment to the departmental or program legislation.

The initial approved terms and conditions may help the previous entity make the transition to its new status. Consequently, the initial terms and conditions may have to be amended to reflect changes that should take place within the revolving fund. These terms and conditions will require the support of the deputy minister responsible for the revolving fund, as the activities of the revolving fund are always subject to the mandate of the responsible department.

When an authority to spend revenue is obtained through an Appropriation Act, the vote wording should include, as a minimum, the following text:

> Vote no. — Name of the Revolving Fund — pursuant to Section 29.1(2)(b) of the *Financial Administration Act*, to authorize the Minister of (Ministry) to make expenditures out of the Consolidated Revenue Fund, in accordance with terms and conditions approved by the Treasury Board, for the purpose of (short description of the purpose of the revolving fund), including authority for the Minister to spend for the purposes of the fund any revenues received in respect of those purposes …

4220 Authority to drawdown

The drawdown authorization is comparable to a line of credit. This amount is approved in the Appropriation Act or the separate legislation that established the revolving fund.

The measurement of the use of this authority, in accordance with the accounting policies and practices of the Government of Canada, is reported in the Public Accounts in a table titled "Reconciliation of Unused Authority." It is identified in the table by the wording "net authority used, end of year." This net authority used is the accumulated net charge against the fund's authority (ANCAFA) per the balance sheet, adjusted for the accounting policies and practices of the government of Canada.

The ANCAFA is used to record the following:

- the accumulation of net expenditures (expenditures less revenues) charged directly to the CRF,

- the accumulated amounts representing the value of assets placed at the disposal of the fund, less any obligations assumed by the fund; and

- any deficit or surplus amounts that have been authorized for deletion from the fund.

The total amount of drawdown is limited to the spending authority limit approved by Parliament.

The drawdown authority should be established at a level that fully meets the net cash requirements identified in the prospective financial statements of the revolving fund. Management of the revolving fund must inform the Treasury Board Secretariat, early in the process, if it anticipates that the proposed cash requirements may prove to be insufficient. The Treasury Board will then review the actual results and consider alternative sources of financing as identified in the terms and conditions or in the annual business plan. For example, the Treasury Board may require that the host departmental appropriation absorb all or a portion of a revolving fund's operating shortfall.

The vote wording in the Appropriation Act will indicate the maximum amount of non-lapsing drawdown authority chargeable to the CRF. For example, the following wording will be used: “Vote no. … the aggregate of expenditures made for the purposes of the fund shall not at any time exceed by more than (the amount of statutory drawdown authority) the revenues received in respect of the purposes of the fund.”

In situations where an authority is amended through an Appropriation Act, the vote wording should include the following text, as a minimum:

> “Vote no. — Name of the Revolving Fund — to increase from $ (previous drawdown authority) to $ (new drawdown authority) the amount by which the aggregate of expenditures made for the purposes of the (name of the revolving fund), established by Vote XX, Appropriation Act No. x, 19XX-XX, may exceed the revenues…”

For parliamentary control, departments shall use the ANCAFA derived using government accounting principles. This is reflected in the “Reconciliation of Unused Authority”.

4230 Authority to charge fees

User fees help alleviate the tax burden of the citizens of Canada, since those individuals using a particular service pay a proportionate amount for doing so. This in turn, creates a more efficient allocation of resources based on demand. In the application process, an authority to charge fees should be requested when a specific group of users benefits more directly from a particular good, service, use of facility, etc.

The authority to charge fees is obtained through departmental legislation, program legislation, section 19 of the *Financial Administration Act* or ministerial authority to contract.

The managers of a program or activity who identify an opportunity to introduce user fees, are expected to follow the approval process to establish and modify user fees and charges. (*See the Treasury Board Submission Guide, Expenditure Management Submissions, Chapter 8—Fees and Charges.)*

Most user charges are established by regulation conferred through legislation. This process requires consultation with clients and approval by the responsible minister, the Department of Justice, the Treasury Board and a special Cabinet committee. User charge initiatives are also subject to review by the Standing Joint Committee on the Scrutiny of Regulations and to audit by the Office of the Auditor General. The business plan of the revolving fund, must indicate the authority to charge or modify user fees. The reference to the authority should indicate the specific applicable sections of relative legislation or ministerial authority to contract.

4235 Cost recovery for goods and services

The Cost Recovery and Charging Policy is based on fully recovering costs for goods and services. Any departures from these terms have to be fully justified.

First, the full cost of providing the service, regardless of broader public benefits, requires identification. Second, to determine how many of the costs are to be recovered from users, management will allocate costs between specific beneficiary groups or individuals (users) and the general public (public purpose). Cost recovery is not appropriate for programs that benefit all

Canadians or that are intended to assist those most in need. In situations where there is a mix of public and private benefits, fees should be lower than full cost.

Prices should be based on market value for the sale, lease or licence of public property or for rights and privileges that are, in fact, commercial inputs for users. This will help ensure the efficient utilization of scarce resources coupled with a fair economic return to the public.

A revenue plan should be prepared by business line annually. Ideally, the rate or fee structure should reflect the operational costs of the services provided by the revolving funds the unit will provide over the following three to five year period. These calculations will avoid the expense and public inconvenience of frequent rate changes. The unit should use generated revenues to offset the cost of delivering a specific program. Regulation and inspection activities in this paragraph, are examples of cost recovery activities.

A statement of the fund's position and a forecast of operations for a three to five-year period are needed to support the proposed rate or fee structure that management of the revolving fund unit present to the Treasury Board.

4240 Special considerations related to rights, privileges and intellectual property

"Rights and privileges" exist when government allows individuals or groups to use publicly owned or managed resources or services. The government confers these benefits through licences, permits, certificates of necessity and convenience, quotas and similar instruments. In all cases, these rights and privileges give individuals or groups special permission from which everyone else is excluded.

"Intellectual property," in the government context, covers ownership and control of ideas, and concepts or processes. In combination with other production inputs such as raw materials, producer goods and physical labour, they allow the creation of goods and services for sale.

Rights, privileges and intellectual property are intangible assets made available by the government in situations where quite often the value of the benefit to the user is usually greater than the cost of delivering the service. Often, there is no direct relationship between the fees set and the costs incurred to provide the service. These services can be classified into three categories:

- rights and privileges of a personal nature (e.g. passports, consular service fees and visas, park entrance fees and camping permits);

- rights and privileges of a more commercial nature (e.g. import/export licences, spectrum fees, commercial fishing licences and mineral rights); and,

- licensing of Crown-owned intellectual property based on its market value in the private sector (e.g. patents and copyrights).

The rights and privileges outlined in the first category are more suitable for revolving fund financing than those in the second and third, categories since their costs are easier to determine and the users are the main beneficiaries. They consist of more cost based services and normally there is a direct relationship between costs and revenues.

The second category represents, for the most part, commercial inputs for users to ensure efficient use of a valuable resource with a fair economic return to the general public. Intellectual property is similar to the second category because the market value dictates the way fees are determined. However, in both cases, these activities are not suitable for revolving fund financing. (In a revolving fund unit, revenues must be used to finance the service from which they are derived, and there must be a direct relationship between the costs incurred and the charges collected.) Accordingly, costs associated with providing these services are normally financed through departmental appropriations, while the fees collected are deposited into the CRF as non-tax revenue.

In special cases, the Treasury Board may allow the revolving fund to include such services within the operation of a revolving fund. If this is the case, the following considerations must be kept in mind.

- Each year, a rate schedule and revenue fee plan must be prepared that clearly delineates the various services by business line. This plan is solely to help manage the revolving fund's financial affairs.

- The actual costs of granting the right or privilege must include the costs of any related activity undertaken by government to provide the service.

- Proposals to spend revenues must be linked to policy objectives (e.g. service improvements, more efficient program delivery or greater equity in financing government programs).

4300 Business plan

The basis for each revolving fund unit is set out in a framework document as well as a business plan. The framework or charter document represents the unit's "constitution" or "operating charter" and includes the following elements:

- the mandate statement;

- a description of the policy environment and the general business lines and the services that the unit will provide;

- the guiding principles on which the unit will be evaluated;

- methods for ensuring accountability for results, including associated and reporting approaches;

- information on all special flexibilities; and

- a description of the unit's overall relationship with the responsible host department and other organizations.

The framework or charter document describes how managers will be held accountable for results, as well as how often (and in what form) managers will report to the responsible host department. The revolving fund unit and its host department develop this document, and the deputy head and the minister responsible for the revolving fund unit will then recommend it. The Treasury Board will subsequently approve all framework documents and subsequent revisions.

The framework or charter document links accountability to a strategic direction. The framework document will be revised annually to reflect changes that may occur.

The initial business plan covers the financial and business line objectives for a three to five-year period. Depending on the nature of the business, the business plan may cover a longer period of time (for example, when there is an extensive capital requirement). Generally speaking, the business plan should assure the minister that management has a clear sense of direction is dealing with the appropriate issues and is managing the fund's affairs accordingly.

The plan should clearly indicate the goals and objectives that revolving fund management will pursue over the following three to five years, how these goals and objectives will be met, and how progress will be measured. Appropriate financial statements form part of the business plan.

The first business plan submitted to the Treasury Board Secretariat along with the framework or charter document will establish the revolving fund unit. Thereafter, a business plan must be prepared annually. The annual business plan will highlight only areas that have changed significantly. As well, the Treasury Board Secretariat will require financial statements for the year or two prior to the planning period and prospective statements for each of the next three to five years. Requirements may vary, depending on variables associated with the nature of the revolving fund.

The business plan should outline a logical sequence of actions that will help the unit achieve its strategic objectives, as well as those of the host department. A good business plan will include all the management, marketing and operational information that the Treasury Board Secretariat program analyst will need to properly assess the viability of the business proposal and its impact on the fiscal framework. The business plan may also be used to communicate the unit's long-term plan to employees and other stakeholders.

In subsequent years, the business plan will include comparative financial statements covering actual results for one to two years before the start of the planning period, along with prospective financial information for each of the subsequent three to five years.

This information is subject to the *Access to Information Act*.

4310 Executive summary

The executive summary should highlight strategic issues requiring attention over the planning period, the unit's major objectives and planned strategies to achieve them. It should also address major decisions that management expects to face during the planning period, including key capital projects, new activities and financing plans.

4320 Mandate statement

In this section, legislative or regulatory basis for the organization's existence (legislative provisions and related Cabinet decisions) are defined. Be sure to define how the revolving fund mechanism would provide the flexibility needed to undertake these responsibilities.

4330 Planning assumptions

In this section, clearly identify key assumptions used to prepare the business plan.

4340 Operating environment

After gathering information about the internal and external forces that affect the unit and the way it delivers its goods and services, it will be necessary to describe the present environment and make predictions about the future supported by forecasts based on appropriate assumptions and data. The whole business plan should address possible future risks and the consequences of not preparing for these risks. **The financial plans and performance measurement reports must be presented by separate business lines**.

A business line is a set of products and/or services provided to a subset of clients. One may use the distinction between client groups as a key variable to distinguish one business line from another. The financial plan (revenues and expenses) should be presented by business line. This will help analysts evaluate performance by business line and help management make decisions. For each business line, the following information should be disclosed:

- **Clients/customers:** Identify the client group(s) for each major area of goods or services. After consulting with representative bodies or surveying clients, a profile of the client should be prepared to assist identification of their needs.

- **Professional skills and the process involved:** Describe in specific terms the type of expertise that the unit needs. For example, in a high technology industry, employees may need knowledge of certain computer programming languages.

- **Partners/stakeholders:** Identify the individuals, groups and organizations that have a vested interest in what the unit does. Briefly describe their activities and their relationship to the unit.

- **Market profile:** Identify other organizations that are active in the same industry. Indicate potential growth areas or shrinking markets, as well as the basis used to make these projections. Compare strengths and weaknesses of other organizations similar to the unit.

- **Location:** Identify the potential advantages or disadvantages of your unit’s location (e.g. a location closer to clients may save time and transportation costs).

- **Regulatory perspective:** Describe the political pressures or changes to regulations that might create opportunities or impede the unit (e.g. environmental legislation).

- **Government policies and operations:** Describe government policies and operations that affect the unit’s operations (e.g. higher operating costs that are not borne by the private sector).

- **Economic perspective:** Describe the economic factors that may affect the goods and services the unit delivers, such as inflation levels, interest rates, exchange rates and international trade agreements.

- **Other:** Describe any other aspects of the operating environment that would help readers understand the plan better.

4350 Objectives, strategies and action plans by business line

This section constitutes the core of the business plan and should clearly indicate the plans for the next three to five years for each business line. This section provides information on objectives, strategies adopted to meet these objectives and performance measures needed to assess progress of the unit.

When developing the following elements of the plan, keep the key planning assumptions and operating environment in mind:

- **Objectives:** Identify specific objectives for each major business line over the next three to five years, and link them to the strategies identified for the planning period. Objectives may include, for example, statements relating to financial viability, ability to compete or maintain the asset base.

- **Strategies:** Describe the chosen strategies and explain how they will help achieve the objectives. Quantify the anticipated impact of the following strategies as far as possible for each business line.

    - ***Marketing strategy*:** Identify initiatives aimed at increasing market share or penetrating specific target markets. For each indicated market, prepare a market forecast covering the planning period.

    - ***Financial strategy:*** Identify actions aimed at containing or reducing costs and establishing revenues needed to sustain these costs.

    - ***Capital asset strategy*:** Describe planned major capital expenditures for each business line and their importance in relation to strategic issues and to the objectives identified for the planning period.

    - ***Human resources strategy:*** Describe the human resources issues that will affect each business line over the planning period.

- **Action plans**: Each business line should have an action plan that describes **what** will be done to meet the objectives, **when** it will be done, **who** will do it and **how** much each action will cost. Separate action plans should be included in the business plan for operations, marketing, management and human resources.

The financial statements covering a three to five-year planning period should reflect the financial aspects of the various action plans. The assumptions used to establish unit cost and the cost allocation method should be explained. Identify and forward alternative actions to the initial plan. The financial forecasts should reflect the risks (contingencies) associated with each action plan.

The host department and the management of the revolving fund unit must establish how start-up costs will be shared (e.g. who will buy or develop a financial system to meet the unit’s accounting and reporting needs?). Start-up costs can be significant for a small revolving fund, and in a larger revolving fund may also require a significant investment of managers’ time. As well, there is a need to clearly identify the assets and liabilities of the department and the unit relating to annual leave, sick leave and termination benefits that employees earned before their transfer to the revolving fund.

4360 Performance measures and targets

Specific operational and financial performance measures and targets should be established for the identified objectives, by business line. These performance measures may include benchmarks and baseline targets. Baseline targets are the standards the business unit will develop based on previous results. Benchmarks, on the other hand, are the targets used by the best performers in the industry. Benchmarks may be useful in building up reasonable baseline targets.

To complete the performance measurement exercise, actual results are compared to target or benchmarks. The performance measure report will cover one to two years of actual results before the start of the planning period and three to five years of predicted results for the planning period. The performance measurement report should encompass the following three aspects.

- **Measures or targets:** To permit accountability, there should be only one or two performance measures for each strategic objective within each business line.

  The degree of uncertainty involved in formulating objectives and performance measures, as well as financial projections, increases in the latter years of the planning period; however, these performance measures should, nonetheless, be distributed throughout the entire planning period.

- **Indicators:** Performance indicators are used to measure performance against qualitative and quantitative baseline targets for separate business lines. Indicators will provide early warning if the unit has exceeded or not met its targets. The performance indicators are useful to the management of the business unit and to other readers of the financial statements, such as the program analyst from the Treasury Board Secretariat. Management of the business unit should contact their program analyst if there is evidence that the unit will not meet the target the Treasury Board uses to monitor each particular aspect of the unit's performance..

  Performance indicators must, at a minimum, relate directly to the quantitative and qualitative targets initially established. Assumptions used must be explained.

- **Monitoring:** The program analyst at the Treasury Board Secretariat will monitor the unit at least annually by reviewing performance measurement report. This report will explain variances between actual results and baseline targets (e.g. fees, volumes) for each business line. Management of the business unit should also measure performance using the same approach, but showing more details more frequently.

4370 Reporting requirements

The business plan will identify the revolving fund manager as the person responsible for producing various periodic and ad hoc reports (e.g. annual business plan, updated financial statements, work plans, performance measure reports and other reports). The annual business plan will provide information on due dates and the destination of the planning, operating and performance measurement reports. The production of these reports should coincide with the broader planning requirements of the host department and/or the central agencies. The following reports are important components of the business plan that should be submitted annually to the program analyst.

- **Financial statements:** At the inception of a revolving fund unit, the financial statements included in the business plan shall cover a three to five year period and shall be presented by business line. In subsequent years, the financial statements should cover a period of one to two years of actual data and three to five years of prospective data. The financial statements will help readers understand the descriptions in the business plan.

  The *Public Accounts Instructions Manual* (PAIM) may be used as a source of information to help prepare financial statements (actual data as well as planned data). Section 4.2 of PAIM provides detailed procedures on the format and content of financial statements. Assumptions identified in the business plan should be used to prepare the prospective financial statements for planning purposes.

- **Operating and performance measurement reports:** The managers of the revolving fund unit will identify reports to be prepared regularly. These reports will assist management and the Treasury Board Secretariat to measure the activities of the revolving fund.

  The financial statements will also provide one or two years of actual data. Each year, the program analyst at the Treasury Board Secretariat will review the performance measurement report. Therefore, explanations of variances between the targets and the actual results must be provided. When the Treasury Board reviews the performance measurement plan, it may add conditions to ensure that the unit meets its targets. For example, the department may be asked to supplement any shortfall experienced by the revolving fund.

4400 Operational environment

A revolving fund business unit is administered within an operational unit of a department and is subject to departmental legislative framework and Treasury Board policies. The deputy head of the department and the manager of the revolving fund unit are jointly accountable for its administration. Revolving fund accounting practices and related requirements for disclosing information are intended to help managers and staff focus on costs of outputs and performance.

The *Financial Administration Act* and all government policies apply to revolving funds, except where the Treasury Board permits specific exemptions. These exemptions are approved by the Treasury Board in the terms and conditions applicable to the establishment and operation of the revolving fund unit.

GAAP are used to prepare financial statements for your unit. The term GAAP encompasses not only specific rules, practices and procedures relating to particular circumstances, but also broad principles and conventions of general application, including the underlying concepts which are described in the *Canadian Institute of Chartered Accountants (CICA) Handbook*. Different principles of accounting may be acceptable in limited circumstances, such as when the unit accounts for its ANCAFA. These circumstances will be described later on in this guide.

The revolving fund management will follow instructions issued annually by the Estimates Division of the Treasury Board Secretariat to prepare separate tables as part of the overall Estimates of the host department.

The general costing approach and methodology described in the Treasury Board's "*Guide to the Costing of Outputs in the Government of Canada*" and the Cost Recovery and Charging Policy applies to all revolving fund units.

The PAIM, supplemented by other Receiver General directives must be followed to report on revolving fund activities at year-end with respect to the preparation of the Public Accounts.

After a revolving fund unit is established, unit management and the program analyst at the Treasury Board Secretariat will monitor subsequent financial and operational performance. At least annually, the program analyst will use the performance measurement report to assess how well the revolving fund unit is complying with its business plan.

The program analyst must determine whether the revolving fund is viable, can maintain its operations and meet its liabilities with the revenues it receives or will receive. The decision to maintain, increase, decrease or wind-up operations of a revolving fund unit will be supported by:

- the revolving fund units history;
- the need for subsidies;
- the unit's capacity to achieve its targets;
- the current or future economic operating environment; and
- realistic and specific plans indicating how operations will be maintained and liabilities will be met in the future.

The program analyst may also use the criteria outlined on the next three pages to annually assess the continuing need for the revolving fund unit.

4410 Continuous requirements

Criteria	Issues to consider
Program objectives or legislative authority	Implementation of new decisions affecting the business unit
Multi-year business plan (three to five years) presented annually	Mission statement Depending on the type of business lines, a business plan covering three or more future years Financial statements covering two years prior to the start of the planning period showing actual results for the first year, projections for the current year, and prospective financial statements for each of the subsequent three to five years Client demand surveys Private industry competition information (core role of government) ANCAFA requirements Performance indicators and targets Assumptions used Relationship to host department Rate disclosure
Business lines	Revenues and expenses reported by business lines

Criteria	Issues to consider
Performance measurement report	Service standards and targets to meet the needs of the department, the managers of the revolving fund unit, the Treasury Board Secretariat, the government and the general public Annual frequency Measure of cost self-sufficiency Long-term capital plan, assets value, age of assets, maintenance costs Disclosure of at least three years to provide a basis for comparison Assumptions used Major contingencies Methods for measuring performance Analysis of results Corrective action
Responsibilities of the departmental deputy minister (DM) and the revolving fund manager	Business plan approval from the minister or deputy minister responsible for the revolving fund business unit Absorption by the departmental appropriation of all or part of the overspending of the annual ANCAFA projected balance, if identified in the business plan Liability of the department for any outstanding balances identified in the business plan when the revolving fund unit is wound up, unless this responsibility is waived by the Treasury Board.
Reporting	Application of GAAP Reports prepared on a modified cash basis and on an accrual basis of accounting Financial statements prepared annually for Public Accounts Financial statements that reflect all costs incurred to deliver the goods and services; such as termination benefits and accrued annual leave, which may not be currently charged to the departmental appropriations Notes to financial statements used to disclose exceptions to the application of GAAP and to fully disclose these costs Annual financial statements that are required as part of the business plan (covering one to two years of actual results before the start of the planning period and prospective financial statements for each of the subsequent three to five years)
Costing methodology	The use of an acceptable methodology such as activity-based costing
Fee	Rate setting policies and structures (e.g. full cost)
Guidance and training	Appropriate financial management expertise Assistance available from the Treasury Board Secretariat through guides and direct consultation

4500 Opening entries on specific items of the revolving fund Authority

The initial authority for a revolving fund is approved by Parliament through the Supplementary Estimates process. It is presented as a $1 Vote that identifies the authority limit and the start-up date of the revolving fund. In the subsequent year, the authorized limit is then presented in the

Public Accounts. If necessary, this amount is adjusted for the net assets assumed at inception. The opening entries of the revolving fund correspond to the values established for the assets and liabilities transferred to the revolving fund at inception, and tie into the business plan submission sent to the Treasury Board. In the opening and subsequent years of operation, this initial authority will change as a result of yearly operating results or changes in parliamentary authority.

Accumulated net charge against the fund's authority

The responsible department will set up a budgetary statutory type central account with a separate internal code vote to separately identify and process the unit's transactions and balances. The specific terms and conditions approved by the Treasury Board for managing the revolving fund must be followed in recording the opening entries.

If accounts receivable and accounts payable are set up at inception, then subsequent receipts and payments should be coded to the revolving fund. The opening balances of accounts receivable and accounts payable will be split under two accounts: "Government of Canada" and "Outside Parties." If the responsible department owes accrued unused annual leave to employees of the revolving fund at the fund's inception, the amount to be received will be shown under "Accounts receivable - Government of Canada." The unit will also set up an "Accounts payable—Outside parties" to record the accrued unused annual leave at the inception date.

The following accounts must be cleared with the responsible department at the fund's inception: accountable advances, petty cash and standing advances, accounts receivable, prepaid expenses, inventories, capital assets, accounts payable and accrued liabilities, employee benefits payable and holdback payable. These assets and liabilities will be offset against the ANCAFA.

Capital assets

The opening value of capital assets used by the revolving fund to deliver programs should be assigned to the revolving fund at historical cost, adjusted for the proportion of the economic life of the assets used at the time of transfer. Where it is not practical to reasonably estimate the value of the assets based on historical cost, management may use the present appraised value or some other appropriate measure of current value. A contributed capital account instead of ANCAFA, will be used only, if approved by the Treasury Board.

Termination benefits

The value of termination benefits for employees transferred to the revolving fund unit as of the inception date must be properly determined. This valuation, and the method used to establish it should be in a note to the financial statements. The following wording can be used: "Employee termination benefits earned prior to an employee joining the revolving fund are a liability of the Treasury Board and, accordingly, have not been recorded in the accounts of the revolving fund". Thereafter, the value will require adjustment based on the employees who join or leave the revolving fund each year. *(See Section 6140 Termination benefits.)*

Illustration

The approval process in the Accounts of Canada starts with parliamentary approval of the Estimates, as presented below:

> Vote 4b — XYZ revolving fund — Pursuant to paragraph 29.1(2)(B) of the *Financial Administration Act*, to authorize the Minister, effective April 1 of the subsequent

year, to make operating and capital expenditures out of the Consolidated Revenue Fund, in accordance with the terms and conditions approved by the Treasury Board, for the purpose of distributing leaflets and, the authority for the Minister to spend for the purposes of the Fund such revenues received for those purposes; and the aggregate of expenditures made for the purposes of the Fund shall not at any time exceed by more than $10,000,000 the revenues received in respect of the purposes of the Fund.

Vote 4b is presented in the Estimates as a $1 item and presented in the Public Accounts as follows:

Ministry summary

(Source of authorities)							Disposition of authorities			
Available from previous years	Main Estimates	Supplementary Estimate	Adjustment and transfer	Total available for use	Vote	Department	Used in the current year	Lapsed or (overexpended)	Available for use in subsequent years	Used in the previous year
		$1		$1	4b	XYZ revolving fund (establishment of fund effective April 1)		$1		
			$10,000,000(1)	$10,000,000	S	XYZ revolving fund authorized limit per vote xx, Appropriation Act no.x. 199x-199x				
			-$750,000(2)	-$750,000		Net assets assumed by the fund				
			$9,250,000	$9,250,001				$1	$9,250,000	

(1) The revolving fund was established under Appropriation Act No. 199x-199x effective April 1, 199x, with a continuing authority of $10,000,000.
(2) The unused authority of the revolving fund is adjusted by the recognition of the net assets assumed by the revolving fund.

The following is an example of the opening journal entries as of the inception date of a revolving fund. This revolving fund received Treasury Board approval for the use of a contributed capital equity account to partly offset the costs of transferring the net assets from the department to the revolving fund.

	Revolving fund		Responsible department	Receiver General
Description	Statement of operations DR (CR)	Balance sheet DR (CR)	Central Accounts DR (CR)	DR (CR)
Accounts receivable		$1,000,000		
Inventories		$500,000		
Capital assets		$2,000,000		
Accounts payable		($1,750,000)		
Contributed capital		($1,000,000)		
ANCAFA		($750,000)		

It is advisable to have the opening balance sheet audited in the first year of operation.

5000 Financial statements

Financial statements of revolving funds include a balance sheet, a statement of operations, a statement of accumulated surplus/deficit, and a statement of changes in financial position. Notes to financial statements should be cross-referenced and are an integral part of such statements. In addition, statements unique to revolving funds include the statement of authority used/provided, and the statement of reconciliation of unused authority.

The contents of financial statements are usually limited to financial information representing the results of financial transactions and events.

Financial statements represent past, rather than future transactions and events. Estimates are often required in anticipation of future transactions and events that need to be accounted for now (e.g. allowances for bad debts).

Financial statements should be presented in such form, use such terminology and provide a classification of items so that significant information is readily understandable to the reader. The financial statements should always compare current period amounts with those of the immediate prior period.

The objective of the financial statements is to communicate information that helps the government and the public to allocate resources and to assess management and stewardship. Therefore, financial statements must provide information about the following:

- the entity’s economic resources, obligations and equity/net assets;
- changes in the entity’s economic resources, obligations and equity/net assets; and
- the economic performance of the entity.

5100 Balance sheet

The balance sheet presents the revolving fund's financial position in terms of its assets, liabilities and equity at the end of an accounting period and helps users evaluate the position of the entity at a specific date.

The key elements are outlined below:

- Current assets

Current assets should include those assets ordinarily realizable within one year of the date of the balance sheet and should be presented in order of descending liquidity.

Current assets should be segregated by main classifications such as accounts receivable from other government departments, accounts receivable from outside parties, inventory and prepaid expenses.

- Long-term assets

These represent assets other than current assets and are segregated by major classifications such as long-term receivables, capital assets and capital leases.

- Current liabilities

Current liabilities include amounts that will be payable within one year of the date of the balance sheet and, again, are presented in order of liquidity. They include only that portion of long-term debts that is payable within one year of the date of the balance sheet.

Current liabilities should be segregated by main classifications such as accounts payable to other government departments, accounts payable to outside parties, deferred revenue and current portion of long-term debts.

- Long-term liabilities

Long-term liabilities represent liabilities other than current liabilities and are segregated by main classifications such as long-term obligations, allowance for employee termination benefits and capital lease obligations.

- Equity of Canada

The equity of the revolving fund is composed of accounts for accumulated surplus or deficit, as well as contributed capital if applicable, and the ANCAFA.

When the basis of valuation of assets is not self-evident from the balance sheet classification titles, the basis of valuation should be explicitly stated on the face of the applicable statements and explained in the notes. *(See Section 5500 Notes to the Financial Statements.)*

5200 Statement of operations

The purpose of this statement is to disclose revenues, expenses, and the net income or loss of a revolving fund operation based on GAAP. This statement must fairly present the results of operations for the year.

The statement should clearly distinguish between the net income or loss before taking into account discontinued operations, the results of discontinued operations, the net income or loss before extraordinary items, and the net income or loss for the period.

Revenues normally arise from the sale of goods, the rendering of services or other sources, such as rent or royalties. Revenues are recognized when services are rendered or when goods are delivered.

Expenses include the cost of sales, where applicable, and significant operating expenses such as salaries, advertising, travel, rentals and amortization. Expenses are recognized when services or goods are received.

The reporting must be in accordance with GAAP and be compatible with the current practice used in the industry sector in which the revolving fund operates. The presentation, in a comparative format, should be aligned with the budget or business plan of the revolving fund.

Extraordinary items must be presented separately. *(See Section 6290 Extraordinary Items.)*

5300 Accumulated surplus/deficit

This statement discloses changes in accumulated surplus or deficit and consists of the following key elements:

- balance of accumulated surplus/deficit at the beginning of the period;
- restatement of previously reported amounts *(See Section 6380 Prior Period Adjustment);*
- restated accumulated surplus/deficit at the beginning of the period;
- net income or loss for the period;
- Write-off of all or part of the accumulated surplus/deficit to or from the ANCAFA; and,
- balance of accumulated surplus/deficit at the end of the period.

5400 Statement of changes in financial position

This statement discloses financial information about the operating, investing and financing activities of a revolving fund and the effects of these activities on the ANCAFA.

The financial position of a revolving fund is represented by the current balance in the ANCAFA.

The change in the financial position is the amount of net financial resources provided or used during the year.

The statement of changes in financial position should at least disclose the following items:

(a) cash from operations—the amount of cash from operations should be reconciled to the statement of operations;

(b) cash flows resulting from discontinued operations;

(c) cash flows resulting from extraordinary items;

(d) outlays for acquisitions and proceeds on disposal of assets not included in (a), (b) or (c) above;

(e) the issue, assumption, redemption and repayment of debt not included in (a), (b) or (c) above; and

(f) the contributed capital and surplus/deficit write off.

Cash flows presented in the statement of changes in financial position should normally be classified by operating activities, investing activities and financing activities.

Operating activities include the following:

- net income before extraordinary items;

- items not requiring the use of funds, such as provision for employee termination benefits, amortization, gain/loss on disposal of capital assets and deferred charges; and

- changes in current assets and liabilities.

Investing activities include the following:

- changes in other assets and liabilities related to investing activities such as net investment in leases, gross acquisition of capital assets, proceeds on disposal and contributed assets.

Financing activities include the following:

- items affecting the composition of the capital structure of the fund, both debt and equity, such as a lease obligation, contributed capital, write-off of the deficit, write-off of surplus.

5500 Notes to the financial statements

Notes to the financial statements are an integral part of such statements. These notes clarify items in the financial statements. They are as significant as the information in the body of the statements themselves. They must not, however, be used as a substitute for proper accounting and reporting treatment.

5600 Other financial statements

Other financial statements are prepared for specific objectives in order to comply with legislation, Treasury Board Secretariat requirements, Receiver General directives or items - peculiar to revolving funds.

Examples of other financial statements include the statement of authority used/provided, the statement of reconciliation of unused authority, and the opening balance sheet statement (that is, the opening balance at the inception of the fund). These statements may or may not be audited. *(See Section 7040 Audit.)*

6000 Specific items

The following sections will help relate certain accounting concepts to a revolving fund.

6010 Accountable advances, petty cash and standing advances

The following definitions outline the context in which these terms are used.

- “Accountable advance” means a sum of money advanced to a person for which such person is accountable and including imprest funds and working capital advances.

- “Petty cash fund” means cash for making minor payments.

- “Standing advance” means an accountable advance issued in a specified amount for an indeterminate period and replenished to that specific amount each time an accounting for expenditures is made. (e.g. for travel)

Currently, a revolving fund controls its own advances which appear as an asset on the statement of assets and liabilities.

Petty cash and standing advances are accountable advances, used only when immediate settlement is required or when these methods of payment are more cost effective.

The initial set up in the revolving fund and department’s account would be as follows:

	Revolving fund		Responsible department	Receiver General
Description	**Statement of operations DR (CR)**	**Balance sheet DR (CR)**	**Central Accounts DR (CR)**	**DR (CR)**
Accountable advance		$1,000		
ANCAFA		($1,000)		
Working capital accountable advance			$1,000	
CRF				($1,000)
To record the creation of an accountable advance within a revolving fund.				
Expenses, such as meals, transport	$250			
Accountable advance		($250)		
Revolving fund expenditure			$250	
Working capital accountable advance				($250)
To recognize the expenses claimed through the submission of vouchers.				

An accountable advance provides money for a specific purpose such as travel, or to accelerate payment of small amounts. When an advance is made, no expenditure is recognized. The expenses in the revolving fund are recognized only when the vouchers are submitted for refund and the central account is charged.

6020 Accounts receivable

Accounts receivable represent claims against an individual, a company or another government organization. Any interest accrued on overdue receivables is also considered part of the outstanding receivable. All other receivables are referred to as non-trade receivables (e.g. refundable deposits).

There are no interest charges on overdue receivables from other government departments. The Treasury Board publication *"Interest and Administrative Charges Regulations"* addresses the practice of charging interest on overdue accounts.

Invoice and record receivables as trade receivables when only the title of the goods is transferred to the client, when the services are provided or when contractual arrangements are in force. Segregate these items between current and long-term assets.

Accounts receivable should be collected according to the terms of the sale or the service provided. The unit should try to resolve problems relating to overdue accounts directly with the debtor.

Receivable adjustments or deletions should be supported by sound management practices. The evaluation criteria used to adjust the receivables for collectibility should be consistent with GAAP. When justified, deletions should be made from the accounts by including a charge on the statement of operations in accordance with *"Debt Write-off Regulations."*

Reconcile other government department receivables (RAYE) and other government department payables (PAYE) with the debtor/payer departments. This step should be done on an ongoing basis to monitor and control the collection of internal receivables. Either the receivable can be substantiated and must be paid or it cannot be substantiated and should therefore be reversed (i.e. cancelled).

Other government department accounts receivable are not subject to an allowance for doubtful accounts. Corrections are permitted though, when there is an error in invoicing, such as a wrong amount or double payment. *(See also Section 6021 Allowance for Doubtful Accounts.)*

A control account must be established to reconcile the subsidiary receivable ledgers and to ensure that any report respecting accounts receivable includes all the receivables. Management is responsible to ensure that internal transactions are settled promptly.

The unit should collect and pay internal government transactions promptly throughout the year and maintain appropriate control at all times.

Report other government department accounts receivable separately from those of outside parties.

	Revolving fund		**Responsible department**	**Receiver General**
			Central Accounts	
Description	**Statement of operations DR (CR)**	**Balance sheet DR (CR)**	**DR (CR)**	**DR (CR)**
Accounts receivable	($2,000)			
Revenues		$2,000		
To record accounts receivable from the sale of goods or services rendered to a tax-exempt organization.				
ANCAFA	$250	$2,000		
Accounts receivable		($2,000)		
CRF				$2,000
Revolving fund expenditure			($2,000)	
To record the collection of accounts receivable				

At year end, the revolving fund reports the accounts receivable to the Receiver General in accordance with PAIM.

6021 Allowance for doubtful accounts

An allowance is an estimate, based on facts and opinions, of the losses that could to be incurred in collecting outstanding accounts receivable. The inability to make an exact forecast does not relieve the management of the responsibility of making careful estimates of the allowance required.

The amount of the allowance for doubtful accounts should be calculated by referring to the accounts outstanding at the end of the financial period, after taking into consideration all circumstances known the date of review.

If, after writing off all known uncollectible accounts to bad debts expense, it is expected that some further losses will be incurred in collecting the accounts receivable outstanding from outside parties, an allowance for doubtful accounts should be established.

Once an account receivable has been recorded in the departmental accounts, it cannot be deleted from the accounts unless circumstances include payment, proper authorized remission or it is otherwise forgiven, written off or cancelled.

Receivables from individuals or organizations outside the government accounting entity should be deleted from the fund's accounts in accordance with the "*Debt Write-off Regulations*".

An adequate allowance for doubtful accounts is assumed to have been made if no statement is made to the contrary.

The allowance for doubtful accounts is recorded by making a charge to bad debts expense in the accounting period being reported. The allowance is included in the net accounts receivable as a decrease in value of the outstanding accounts receivable.

The following entry is made at the time the allowance for doubtful accounts is determined.

	Revolving fund		**Responsible department**	**Receiver General**
Description	**Statement of operations**	**Balance sheet**	**Central Accounts**	
	DR (CR)	**DR (CR)**	**DR (CR)**	**DR (CR)**
Bad debts expense Allowance for doubtful accounts	$500	 ($500)		
To record the allowance for doubtful accounts as of March 31, 19xx.				
Allowance for doubtful accounts Bad debts expense Accounts receivable	 $300	$500 ($800)		
To record the write off of an authorized list of accounts receivable under the *Debt Write-off Regulations.* The adjustment between the actual loss and the allowance is charged to bad debts expense.				

Appropriate documentation and an audit trail must be available to support the entries processed for the allowance or the write-off.

6022 Year-end receivables

Accounts receivable at March 31, represent amounts outstanding as at the end of that accounting period. It is important to note that there are no extended accounting periods allowed for collecting accounts receivable, including the receipt of collections from other government departments. The amounts collected in the extended periods are considered new year transactions for revolving funds.

As a result, the revolving fund expenditure will be adjusted for these collections but the ANCAFA will not be. The receivables and the payables on the statement of assets and liabilities will show the balances as at March 31. The reconciliation will include the extended period collection in the "amounts credited to budgetary appropriation after March 31". The statement of operation is not affected.

At year end, departments have a different policy concerning the handling of cash collected in April. Revolving funds have to consider this difference in the reconciliation of authority used. *(See Section 7100 Year-end Reconciliation.)*

6030 Inventories

Inventories are goods held for sale during the course of business or goods that will be used to produce goods for sale.

While inventory is not yet recorded as an asset in the statement of assets and liabilities of the government, Revolving funds must report the existence of inventory on their financial statements in accordance with GAAP.

When accounting for and reporting inventory, revolving funds must:

- identify and quantify the goods that should be included in the inventory; and

- determine the accounting value associated with the physical goods.

Inventory control varies in accordance with the type of operation. Retail operations may need only one type of account, while manufacturing types could have three or more inventory accounts such as raw material, work in process and finished goods. Inventory records can be maintained on a perpetual or periodic basis as well as a combination of the two. A perpetual inventory control system reflects the purchase and use of goods as they occur in the inventory account. A periodic inventory system records the purchase and the inventory value is adjusted according to a physical count at the end of the period.

Inventory costing

Regardless of the method selected, the factors entering into the cost of an item will vary according to circumstances. The cost of an item may include acquisition charges, such as transportation fees. For work in process and finished goods, the cost will include the laid-down cost of material plus the cost of direct labour applied to the product. The applicable share of overhead expense properly chargeable to production is ordinarily included in the cost determining process. Where the storage of goods for a significant time is an integral part of the manufacturing process, the cost may also include the applicable share of warehousing expenses and, in a few cases, carrying charges.

Several methods are used in determining inventory value. The following are the most common methods:

- Specific identification —the cost of each item in the inventory is identified on an item by item basis;

- Average—the cost of an item is determined from the weighted average of the cost of similar items purchased at different selected intervals;

- First In, First Out(FIFO)—the cost of the first goods purchased or acquired is the cost assigned to the first goods sold;

- Last In, First Out(LIFO)—the cost of the goods most recently purchased or acquired is the cost assigned to the goods sold. (this method is not commonly used in Canada.);

- Standard costing—this method is used in manufacturing organizations and consist of a determination of costs that should be incurred to produce a service or product under normal conditions and operating circumstances. These standard costs are then compared with actual costs to isolate variances which, in turn provide a basis for study and remedial action;

- net realizable value—this value reflects the net amount that would be received by selling the asset in a normal, arms-length transaction.

The method selected for determining cost should be one that results in the fairest matching of costs against revenues, regardless of whether or not the method corresponds to the physical flow of goods. Inventory should be valued at the lower of current cost or net realizable value at the balance sheet date.

In the financial statements, clearly state:

The basis used to value the inventory and any of its categories, any change from the basis used in the previous period, and the effect of such a change on the net income for the period. Also disclose the value of the amounts of major categories making up the total inventory, such as finished goods, work in process and raw materials.

If the method of determining cost has resulted in a figure that does not differ materially from recent cost, the simple term “cost” can be used to describe the basis of valuation. Otherwise, the method of determining cost should be disclosed.

Record inventory on consignment on the balance sheet as a separate item against an offsetting payable. If significant, support the entry with a note. This type of inventory increases the need for proper internal control and security.

Interim reporting

It is preferable that the determination of interim inventory be on the same basis as annual inventory.

6031 Provision — Inventory obsolescence

In situations where inventory obsolescence is material, management should use best judgement to measure transactions, and acknowledge responsibility for such decisions in the management report.

When valuing inventory, do not deduct reserves for future decline in inventory values, or any similar reserves.

Delete obsolete inventory from the inventory asset account and charge it to an expense account. When charges are material, disclose specific details on the obsolete inventory.

6032 Work in progress

At the end of a fiscal year, appropriations are charged with all outstanding debts arising from work performed, goods received and services rendered on or before March 31.

Where the contract specifies payment on completion or on a specific milestone date, the revolving fund should evaluate the work completed on projects that cannot be billed to the client by March 31. Document the best estimate of the work in progress, as auditors will use the estimate to verify the amount reported on the financial statements. The value of work performed and services rendered is determined on the basis of performance up to and including March 31 and billings or estimates of the debt owing for that performance.

The value of goods received is harder to determine, as it involves ownership of the goods. Ownership can be interpreted as physical control or possession (actual or constructive) of the goods that lead to a legal liability to pay the supplier. If ownership is obtained by March 31, and inspection has determined that the goods were supplied by the accounting date, then the value of these goods must be set up as a debt.

If physical control of, and title to the goods have not passed to the revolving fund, only outstanding payments for work in process completed to March 31 can be accrued as a debt, and then only if the purchase contract provides for the payment(s).

6040 Prepaid expenses

A prepaid expense occurs when an entity has paid for services or supplies that are not used by the end of the accounting period. Such services or supplies may include for example, a subscription, conference attendance or security services.

The present accounting and reporting policies and practices of the government recognize expenditures when they are paid or accrued. Therefore, no prepaid expenses are recorded in the government's financial statements.

At the revolving fund level, prepaid expenses may be recognized when dealing with outside parties. Prepayment must be made according to the *Financial Administration Act*.

Prepaid expenses are recorded and disclosed in the financial statements according to their classification as current or long-term assets.

	Revolving fund		**Responsible department**	**Receiver General**
Description	**Statement of operations DR (CR)**	**Balance sheet DR (CR)**	**Central Accounts DR (CR)**	**DR (CR)**
Expenses	$1,200			
ANCAFA		($1,200)		
Revolving fund expenditure			$1,200	
CRF				($1,200)
To record the payment for a 12-month subscription.				
Prepaid expenses		$900		
Expenses	($900)			
To recognize the prepaid portion of the unused subscription paid to a publishing company (assuming a 75-per-cent prepayment on a $1,200 expense).				

6050 Capital assets

Capital assets are accounted for in the same way that many private sector organizations do, by following GAAP and recording assets at historical cost.*(see Section 3060 of the* CICA Handbook*)*. This cost consists of the consideration given to acquire, construct, develop or better a capital asset including all costs directly attributable to the acquisition, construction, developing or betterment of the capital asset.

Presentation and disclosure by revolving funds must be in accordance with GAAP. Thus, revolving funds unit will have to disclose the following:

- the cost of the asset;

- the accumulated amortization; and

- the amortization method, period and, where applicable, the rate used

N.B. At time of publication of the present guide, a Treasury Board draft policy known as “A Draft policy on Accounting for Capital Assets” was in development, the result of which may affect the current narrative.

6051 Major capital projects

Revolving fund units can build in an amortization allowance to cover capital costs, but the scope for retaining the funds needed for major capital expenses over time is limited. The earnings of the revolving fund should cover long-term debt. When a revolving fund needs funds for major capital purchases, an arrangement will be negotiated with either the responsible department or the Treasury Board on an *ad hoc*, case-by-case basis.

It may be appropriate for a revolving fund to work with its responsible department to plan and develop large projects when their needs are consistent and the timing is appropriate for both parties.

The revolving fund may be able to negotiate an arrangement with the Treasury Board, under which the Treasury Board acts as a banker, by agreeing to provide funds up front in exchange for eventual increased revenues to the CRF or decreased authority levels in future years.

6100 Accounts payable and accrued liabilities

Accounts payable and accrued liabilities represent some of the segregated current or long-term liabilities appearing on a balance sheet. Accounts payable, which usually cover supplier accounts, are liabilities incurred by an organization which are payable immediately or at some future date. Accrued liabilities are for expenses that have been incurred that will require payment in the future.

The revolving fund budgetary account, one of the accounts of Canada, will be subject to payables at year end (PAYE) accounting procedures in the same manner as for annually lapsing budgetary appropriations according to section 37 of the *Financial Administration Act.* The Receiver General Directive on PAYE outlines detailed procedures that have been developed in accordance with Treasury Board policy.

The revolving fund should account for payables in the manner which is described in the next two sections of the guide.

6101 Other Government Department Payables and Accrued Liabilities

Other government departments include all entities listed in Schedule I and II of the FAA. Accounts payable pertaining to other government departments include short-term liabilities resulting from the receipt of goods or services from other government departments. Account payable should be set up to establish that liability.

A common example of an accrued liability is the interest on the drawdown authority (*see Section 6270 Interest Expense on Drawdown*).

	Revolving fund		Responsible department	Receiver General
Description	**Statement of operations DR (CR)**	**Balance sheet DR (CR)**	**Central Accounts DR (CR)**	**Central Accounts DR (CR)**
Interest expense Accrued liabilities—other government departments	$1,000	($1,000)		
To record interest expenses at the end of the accounting period.				
Accrued liabilities—other government departments ANCAFA Revolving fund expenditure (internal transactions) Return on investment (internal transactions)		$1,000 ($1,000)	$1,000	($1,000)
To record the payment of accrued interest to the Department of Finance by way of an interdepartmental settlement.				

6102 Accounts payable, accrued salaries and benefits, and other accrued liabilities (non-government)

This account will contain all accounts payable or accrued expenses resulting from transactions with non-government entities. When the revolving fund receives goods or services from a non government entity, use the following accounting entries to record the liability and eventually pay the account:

	Revolving fund		Responsible department	Receiver General
Description	**Statement of operations DR (CR)**	**Balance sheet DR (CR)**	**Central Accounts DR (CR)**	**Central Accounts DR (CR)**
Office supplies expense Accounts payable	$500	(500)		
To record the purchase of office supplies.				
Accounts payable ANCAFA Revolving fund expenditure CRF		$500 ($500)	$500	($500)
To record the payment of accounts payable to an outside supplier.				

Certain other liabilities, such as vacation pay, retroactive pay, accrued professional fees, may be combined with trade payables. Vacation pay and retroactive pay are recorded at the central agency level for the whole government. However, the unit must also record its own liabilities through an entry in its accounting system. This type of entry, restricted to revolving funds, does not affect the central accounts, thus no duplicate liability exists in central accounts.

6110 Unused annual leave

Annual leave credits are accumulated by employees in accordance with collective agreements for unionized employees and Treasury Board policies covering terms and conditions of employment for management. Employees accumulate annual leave credits when they are unable to use them during the year or when they have requested a carry over for specific reasons. Normally, these annual credits can only be accumulated for two years.

As employees transfer from one organization to another, any unused annual leave credits they have accumulated are taken with them. Employees can request to receive cash in lieu of leave:

- at their request;
- pursuant to the collective agreement terms and conditions of employment; or
- by direction of the Treasury Board.

When cash in lieu of leave is requested, the organization where the employee is currently working normally pays the employee, even if the accumulated leave applies to time worked in a previous organization. However, the situation may be more complicated in the case of revolving funds. The following sections will explain how to process accumulated unused annual leave credits under differing circumstances.

6111 Unused annual leave accumulated before the employee joined the revolving fund

When the revolving fund is established

A written agreement between the revolving fund and its host department should be prepared to indicate which party is responsible for paying the accumulated annual leave for all departmental staff transferred into the revolving fund. Should an employee decide to take a pay out before commencing employment with the revolving fund, the host department will bear the costs of such pay outs. When accumulated unused annual leave credits accompany the employee, the host department will cover their costs, if they are paid out within two years of the employee joining the revolving fund unit. Within this period, the employee should take a pay out or time off for this accumulated leave.

Recognition of this item in the revolving fund will be done through a note to the financial statements. The note will state that the Allowance for Unused Annual Leave liability account does not include $X of accumulated unused annual leave related to host departmental staff transferred to the revolving fund. This amount represents a liability of the host department.

If an agreement between the host department and the revolving fund provides for the full payment of the unused annual leave when the fund is first established, the accounting entry would appear as follows.

	Revolving fund		Responsible department	Receiver General
Description	**Statement of operations DR (CR)**	**Balance sheet DR (CR)**	**Central Accounts DR (CR)**	**DR (CR)**
ANCAFA	$500	$200,000		
Accrued unused annual leave		($200,000)		
Departmental expenditure vote			$200,000	
Revolving fund expenditure			($200,000)	
To record the value of unused annual leave paid out to revolving fund by the host department.				

After the revolving fund is established

During the first two years that the revolving fund is operates, employees receiving payment in lieu of taking unused annual leave will obtain funding from the host department for all unused annual leave earned before they joined the revolving fund unit. The accounting entry could appear in a number of different ways depending on whether the unused annual leave was previously disclosed as a note to the financial statements or the revolving fund was paid up front for the full liability. A few different situations are described below.

Example 1:

Within the two-year start-up period, the employee has elected to take cash in lieu of using some accumulated annual leave. The host department did not pay the revolving fund unit for the leave when the fund was established.

	Revolving fund		Responsible department	Receiver General
Description	**Statement of operations DR (CR)**	**Balance sheet DR (CR)**	**Central Accounts DR (CR)**	**DR (CR)**
Accounts receivable—Other government departments Accrued unused annual leave	$500	$1,000 ($1,000)		
To record the election of the employee to receive cash from the host department for some accumulated leave.				
Accrued unused annual leave ANCAFA Revolving fund expenditure CRF		$1,000 ($1,000)	 $1,000	 ($1,000)
To record payment of accumulated leave to the employee.				

Example 2:

Within the two-year start-up period, the employee has elected to take cash in lieu of using some accumulated annual leave. The host department previously paid the revolving fund unit for the leave.

	Revolving fund		Responsible department	Receiver General
Description	**Statement of operations DR (CR)**	**Balance sheet DR (CR)**	**Central Accounts DR (CR)**	**DR (CR)**
Accrued unused annual leave ANCAFA Revolving fund expenditure CRF	$500	$1,000 ($1,000)	 $1,000	 ($1,000)
To pay the employee for the annual leave accrued prior to the date the revolving fund was established.				

Example 3:

The employee has decided to take time off instead of a cash payment. This entry might appear only once at year-end and take account of all the leave taken in this manner throughout the year. It is assumed that the host department paid the revolving fund for the liability when the fund was first established.

	Revolving fund		Responsible department	Receiver General
Description	**Statement of operations DR (CR)**	**Balance sheet DR (CR)**	**Central Accounts DR (CR)**	**Central Accounts DR (CR)**
Refund of previous year's expenditures		$1,000	($1,000)	
Revolving fund expenditure			$1,000	
Accrued unused vacation pay ANCAFA	$1,000			
To record an adjustment to the departmental accounts, when the employee elects to take the leave in time instead of a payment in cash and the responsible department has initially booked the liability.				

If the host department has not developed its own query process, the revolving fund should inform the department of the leave in time.

Unused annual leave accumulated while employee was working in the revolving fund

Annually, as of March 31, the revolving fund should calculate the unused annual leave for all of its employees and adjust its liability and expense accounts accordingly. A policy should be developed for managing the accumulation of leave credits and the payment of these to employees. The calculation will be based only on the annual leave carryovers for employee time worked within the revolving fund. As mentioned in the previous section, the host department is responsible for all unused annual leave that employees accumulated while working in its organization. A note should be included with the financial statements that states the amount of the liability of the host department(s) that is not included. The following table shows how to account for such a transaction.

	Revolving fund		Responsible department	Receiver General
Description	**Statement of operations DR (CR)**	**Balance sheet DR (CR)**	**Central Accounts DR (CR)**	**Central Accounts DR (CR)**
Allowance for unused annual leave	$25,000			
Accrued unused annual leave		($25,000)		
To record an annual adjustment to the revolving fund's expense and liability accounts for accumulated unused annual leave.				

As employees are transferred from the revolving fund, it will be held accountable for the unused annual leave in the same manner that a host department is responsible when its employees are transferred to a revolving fund. The revolving fund will need to maintain liability accounts until the leave is paid in cash or taken in time off.

The financial statements for the entire Government of Canada include a centrally booked liability calculated for employees in all government departments and agencies, including those organizations that administer revolving funds. Since the revolving fund statements are not consolidated with the financial statements of the Government of Canada, the recording of a liability in the revolving fund financial statements does not duplicate the liability recorded in the Accounts of Canada.

6115 Account payable for work in process

The value of work performed and services rendered is determined on the basis of performance up to and including March 31, and billings or estimates of the debt owing for that performance.

The value of goods received is sometime hard to determine, as it involves ownership of the goods. Ownership is interpreted in accordance with terms of the contract and quite often means physical control or possession (actual or constructive) of the goods that leads to a legal liability to pay the supplier. If ownership has been acquired by March 31, and inspection has determined that the goods were supplied by the accounting date, then value of these goods must be set up as a debt.

If you do not have physical control of and title to the goods, only outstanding payments for work in process completed to March 31 can be accrued as a debt, and then only if the purchase contract provides for the payment(s).

At the end of a fiscal year, record expenses for all outstanding debts arising from work performed, goods received and services rendered on or before March 31.

Where the contract specifies payment on completion or on a specific milestone date, you should evaluate the work completed on projects that you cannot bill to the client by March 31.

6120 Holdback payable

The holdback payable account, which represents a percentage of a contract amount, is used only if required by the contract. Final payment is made when goods or services are delivered or provided in accordance with the contractual arrangements.

The coding for the holdback related to the revolving fund will reflect the holdback payable at both the revolving fund level and the departmental level. At year end, the government entity through the host department reports all liabilities, including holdbacks of the RF.

	Revolving fund		**Responsible department**	**Receiver General**
Description	**Statement of operations DR (CR)**	**Balance sheet DR (CR)**	**Central Accounts DR (CR)**	**DR (CR)**
Revolving fund expenditure			$100,000	
CRF				($85,000)
Holdback payable		($15,000)	($15,000)	
ANCAFA		($85,000)		
Capital asset		$100,000		
To record the payment for a capital asset project and holdback of 15 per cent according to the contract.				

As a result of these entries, the department has processed a charge of $100,000 in the revolving fund expenditure account. The revolving fund has only processed $85,000 through the ANCAFA, so the remaining $15,000 is a reconciliation item. The $15,000 is a reconciliation item and is charged against the fund’s authority in this reconciliation.

The coding to recognize the holdback transaction should identify the holdback as a departmental holdback payable using the holdback account assigned to the department. The transaction sub-coding will identify the portion attributed to the revolving fund unit.

Since the cut-off dates of the revolving fund and the government are not the same, these transactions could be part of the reconciliation between the ANCAFA and the authority used.

6130 Employee benefit plans (EBP)

The EBP rates, developed by the Treasury Board Secretariat, represent the forecast cost to the government of delivering various employee benefits and insurance plans. These various rates are amalgamated, expressed as a percentage of the total personnel costs, and are further subdivided into a statutory component and a component reliant on annual appropriations. The amount of statutory and voted EBP costs assigned to a department or other organization are assessments, similar to a property tax assessment.

Revolving fund personnel costs are viewed separately from the rest of the department's personnel costs. Therefore, the revolving fund must account for its own share of the employee benefit costs.

The Expenditure Management Sector at the Treasury Board Secretariat annually confirms the rates to be used by a revolving fund for full-time and term employees. In early March each year, the Secretariat issues a letter to the senior full-time financial officers of departments and agencies that provides information on employee benefit costs and the remittance of amounts to the Secretariat for the upcoming fiscal year.

These rates are estimates of what the cost is likely to be for the government in the upcoming year. In March of the following year, the Secretariat calculates and communicates the actual cost (up to date estimate) to departments and agencies, including revolving funds, which must then make final adjustments to accounting records prior to year end.

Revolving funds will use the percentage factors of salary and wages, found below, to calculate the 1997-98 EBP amounts.Two sets of rates are applicable for computing revolving funds personnel costs: 22.8 per cent and 5.78 per cent. The Treasury Board will advise annually of the rate to use.

The 22.8 per cent rate is applied to the total personnel costs for full-time employees, including terms more than six months. This rate includes the following components:

- an amount to cover the government's contribution as the employer to the Public Service Superannuation Account (PSSA), the Canada Pension Plan (CPP)/Quebec Pension Plan (QPP), the Supplementary Death Benefit Account (SDBA) and the Employment Insurance (EI) Account;

- an amount to cover contributions to employee insurance plans such as the Public Service Health Care Plan, the Dental Plan, other insurance plans and provincial payroll taxes.

The rate of 5.78% is for term and seasonal employees under six months who are not contributors to the PSSA and SDBA and therefore do not qualify for insurance plan coverage.

According to the instruction letter from the Treasury Board Secretariat, monthly interdepartmental settlements (ISs) must be prepared. These ISs serve as the mechanism to make the accounting entry to recognize the employee benefit charges and to remit the amount to the Secretariat. In some cases, revolving funds may establish specific remittance arrangements (e.g. bi-monthly, quarterly, semi-annually) with the Secretariat, although such costs should be recorded monthly. The revolving fund initiates the EBP transaction that results in the accounting entry to its financial system and generates the IS transaction.

The following example shows how employee benefit costs are accounted for within the financial accounting framework of the revolving fund and the government.

	Revolving fund		**Responsible department**	**Receiver General**
Description	**Statement of operations**	**Balance sheet**	**Central Accounts**	
	DR (CR)	**DR (CR)**	**DR (CR)**	**DR (CR)**
Employee benefit expense Accrued employee benefits payable	$6,000	 ($6,000)		
To record the monthly charge for employee benefit costs.				
Accrued employee benefits payable ANCAFA Revolving fund expenditure Treasury Board control account		$6,000 ($6,000)	 $6,000	 ($6,000)
To record the payment of employee benefit costs to the Treasury Board Secretariat.				

The Treasury Board Secretariat contact point for employee benefit transactions is as follows:

Financial Services Division
Corporate Services
Treasury Board Secretariat/Department of Finance
5th floor, East Tower
140 O'Connor Street
Ottawa, Ontario
K1A OR5
Tel.: (613) 995-5231

6131 Employee benefits and secondments

To ensure personal development opportunities are made available for its employees and to temporarily take advantage of personnel with specialized qualifications, revolving funds may enter into secondment agreements with government departments, Crown corporations and private sector organizations.

The terms and conditions of the secondment agreement should clearly state how the employee's salary and benefits will be handled. The following approaches should be used to record the financial transactions relating to a secondment agreement.

For purposes of understanding the examples, note that the organization where the employee is on strength or the one seconding the employee to another organization is referred to as the home organization. The organization offering the developmental opportunity or requiring the specialized skills is referred to as the host organization.

Generally the home organization will continue to administer the employee pay records and to cover the employee's salary each pay period. Accordingly, the home organization will bill the host for salary and wages.

The accounting for the salary recovery or charging must be in accordance with the Treasury Board Chart of Accounts Manual. Revolving funds shall follow the policy issued by the Program Branch of the Treasury Board Secretariat regarding accounting for secondment agreements. The revolving fund should identify the method that allows the production of the best information in the most timely and cost-effective manner.

The following examples describe the various types of secondment situations.

Example 1: The revolving fund (home) seconds an employee to a department (host)

The two parties sign an agreement which provides for an employee of a revolving fund to be seconded to a department. The revolving fund will continue to administer the salaries and benefits for the employee as the person is still considered part of the revolving fund's payroll. Since the revolving fund is entitled to recover only the gross salary paid to the employee, the revolving fund pays the employee and recovers the gross salary amount from the host department. There is no additional recovery for employee benefits. Recovering the costs from the host department will reduce the revolving fund's salary expenses. The calculation of the statutory benefits and insurance costs for the revolving fund will be based on the revolving fund's net salary expenses. Therefore, the home department does not take into account the salary costs of the employee on secondment. The host department will need to consider the EBP portion of the employee's salary costs when calculating its portion of the employee benefit costs.

Example 2: A department (home) seconds an employee to a revolving fund (host)

The two parties sign an agreement that provides for the secondment of a departmental employee to a revolving fund. This situation will be handled in exactly the same manner as situation 1 with one difference: the roles of the department and the revolving fund are reversed.

Example 3: A revolving fund (home) seconds an employee to a Crown corporation or a private sector organization (host)

The two parties sign an agreement that provides for the secondment of a revolving fund employee to a Crown corporation or a private sector organization. The revolving fund will continue to administer the employee's pay and benefits and recover the total cost to government of the employee's salary and employee benefits. The amount to be recovered must be based on the employee's entitlement, the apportioned rate for the government's costs related to statutory benefits and contributions to employee insurance plans. The amount recovered for the employee's entitlement should be applied as a reduction to the salary cost of the revolving fund. The portion of EBP charged and recovered from the Crown corporation or the private sector organization as non-tax revenue in the accounts of the parent department.

Example 4: A Crown corporation or a private sector organization (home) seconds an employee to the revolving fund (host) (Interchange Canada)

Both parties sign a contract for services. The revolving fund will receive an invoice for the value of services that the seconded employee will render to the host. The debit will be charged to salary expenses of the revolving fund. However, do not apply this amount to the salary base when calculating the EBP remittance to the Treasury Board. The home organization will continue to pay the salary and cover the benefits associated with the employee.

Example 5: A revolving fund (home) seconds an employee to another revolving fund (host)

The two parties sign an agreement that provides for the secondment of an employee between different revolving funds. The home revolving fund will continue to administer the employee's pay and benefits but will only recover the employee's salary from the host revolving fund. As stipulated in example 1, the home revolving fund calculates the EBP cost on the basis of its net salary costs (excluding the salary related to the seconded employee). On the other hand, the host revolving fund will include the seconded employee's salary in its salary base when calculating its portion of the EBP costs.

6140 Termination benefits

Termination benefits (severance pay portion) are payable to employees who are subject to the *Public Service Staff Relations Act* (either under Part I or as a separate employer), upon termination of employment. Certain requirements must be met for employees to be eligible for termination benefits and these conditions for payment are contained in the collective agreements for unionized employees and in Treasury Board Manuals covering terms and conditions of employment for management.

The Treasury Board establishes a liability for termination benefits for the entire government which is calculated for all Public Service employees as well as those of National Defence, Royal Canadian Mounted Police (RCMP), plus members of Parliament (MPs).

The government's financial statements recognize accrued employee termination benefits as liabilities which are recorded through a central allowance reviewed annually. The government's financial statements reflect any change in the annual allowance by showing an increase or decrease to the provision for employee termination benefits, with a corresponding adjustment to the expenses of the government for that fiscal year.

Since the revolving fund financial statements are not consolidated with the financial statements of the Government of Canada, the recording of a liability for termination benefits of the revolving fund employees in the fund's financial statements will not duplicate the liability recorded centrally in the Accounts of Canada.

Termination benefits accrue to employees of the revolving fund according to their years of service with the Government of Canada, as provided for under their employment agreements. Beginning with the date the fund was established, y the revolving fund is responsible for financing the severance entitlements of its employees.

The value of termination benefits that employees of a revolving fund earned before the fund was established represents an obligation of the Government of Canada. Consequently, the value of these benefits must be calculated as of the creation date of the revolving fund and referenced to a note in the financial statements of the revolving fund. The Treasury Board will fund the pay out of these benefits for a period of up to fifteen years from the establishment date of the revolving fund. However, the employees' service entitlements that accumulate due to employment with the revolving fund will be the responsibility of the revolving fund.

The Treasury Board Secretariat established this adjustment period based on its expectation that the revolving fund will have reached financial stability by the end of the fifteen year period. At that time, the revolving fund is expected to be capable of fully financing employee termination benefits accrued before and after the inception of the revolving fund unit.

Application of the 15-year rule

This rule will be applied consistently across all revolving funds unless the Treasury Board has previously approved an alternative approach.

- **New revolving funds and those established for less than fifteen years**

The funds will show as a note to the financial statements, the amount of termination benefits employees earned before joining the revolving fund. The note will be updated annually to reflect the arrival or departure of employees. The adjustment in the dollar value of the note will apply only to the years of service of current employees before the revolving fund was established.

Sample note to be included in the financial statements of the revolving fund unit:

> "Employees of XXX revolving fund are entitled to specified termination benefits calculated on the basis of salary levels in effect at the time of termination as provided for under collective agreements and other conditions of employment. Employee termination benefits of an employee earned before joining the revolving fund are considered a liability of the Treasury Board and, accordingly, have not been recorded in the accounts. As at March 31, 19xx, the Treasury Board liability for revolving fund's employees is $x.x million. The liability for benefits earned after an employee joins the revolving fund is recorded in the accounts as benefits accrue to employees."

The Treasury Board will only fund this portion of the past service benefits for employees leaving the Public Service, up to and including the fifteenth year of the revolving fund's operation. After fifteen years, unless the Estimates Division of the Treasury Board Secretariat extends funding, the long-term liability account for termination benefits will be adjusted accordingly with an offset against the revolving fund's accumulated deficit/surplus account. This adjustment establishes the accounting entry as a prior-year adjustment representing a change in policy in accounting for these past service benefits. A note to the financial statements will be required to clearly explain this impact on the financial position of the revolving fund and the removal of the previous year's notes.

Benefits paid after the fifteenth year of operation will be funded fully though the ANCAFA.

- **Revolving funds established for more than fifteen years**

These funds will show a liability on their balance sheet for all years of service of their employees (with no distinction between years of service before and after the employee joined the revolving fund). The termination benefits will be funded fully through the ANCAFA.

Calculation and accounting treatment

The revolving fund's financial statements must reflect the value of termination benefits under current liabilities (benefits payable in the current year) and long-term liabilities (benefits payable in future years). As mentioned previously, the termination benefits employees earned before the fund was established should be reflected in a note to the financial statements up to and including the fifteenth year of operation. Each year, the note and values in the liability accounts will be adjusted. Once the fifteen year period has lapsed, the note will be eliminated and replaced as appropriate, by changes in the current or long-term liability.

The termination benefits of Public Service employees who are no longer employed by the federal government will be based on the reason for the termination of their employment. These termination benefits are those that the employee had accrued as of the date the revolving fund was established, as well as those accrued monthly afterwards. Three examples follow:

- **Retirement—Collective agreement terms and conditions**
    - Maximum up to 35 years of service, as applicable
    - One week per complete year of continuous service
    - Only permanent employees are considered
- **Resignation—Collective agreement terms and conditions**
    - Maximum 26 years of service
    - Minimum 10 years of service
    - Half a week per complete year of continuous service
    - Only permanent employees are covered
- **Layoff—Collective agreement terms and conditions**
    - No maximum number of years
    - No minimum number of years
    - One week per complete year of continuous service except that the employee receives two weeks for the first complete year of continuous service
    - Only permanent employees are covered

Employment agreements for all employee bargaining groups must be consulted when calculating the accrued termination benefits for employees transferred to the revolving fund on its establishment and as changes in staff occur during subsequent years. The human resources branch of the responsible department, assisted by the finance branch, should be able to provide the required dollar values for accounting and reporting purposes within the revolving fund. As employees move in and out of the revolving fund before it reaches its fifteenth year of operation, the calculation for the termination benefit liability will be based on the employees' service as part of the revolving fund and on the service they accumulated in other departments while the revolving fund existed. In all cases, base calculations on the computation followed when an employee retires to ensure that all revolving funds use a consistent accounting approach.

The following examples illustrate the accounting entries required for various types of transactions that affect termination benefits.

Example 1: The monthly accounting entry to record termination benefits accrued to employees of the revolving fund are accruing termination benefits following establishment of the fund

Description	Revolving fund Statement of operations DR (CR)	Revolving fund Balance sheet DR (CR)	Responsible department Central Accounts DR (CR)	Receiver General Central Accounts DR (CR)
Provision for termination benefits	$8,300			
Allowance for termination benefits		($8,300)		
To accrue expected monthly expenses for termination benefits based on an annual amount of $99,600.				

When an employee of a revolving fund leaves the Public Service, a payment is recorded by the revolving fund for termination benefits from its ANCAFA account. This entry will decrease the liability account "Allowance for Termination Benefits". When an employee of a revolving fund is transferred to another Public Service entity, the liability account "Allowance for Termination Benefits" of the revolving fund will be decreased accordingly by either a credit to the annual expenditure or a decrease related to a major structural change. However, the credit can be disclosed separately with the appropriate description of the special event.

Example 2: An employee leaves the Public Service while on strength with a revolving fund created five years ago.

This example shows how to set up accrued termination benefits receivable and the Treasury Board funding for the years of service before the fund was established. In addition, also shown is the initial requirement of the ANCAFA to pay the termination benefits until replenishment by collection from the Treasury Board.

Notes: Severance pay = SP
Revolving fund = RF
Total SP less (SP x (RF life in years / employee's service in years))
<u>Calculation:</u> Total severance - $25,000
Life of RF - 5 years
Employee's service - 25 years
Portion funded by the Treasury Board is
$25,000 - ($25,000 x 5/25) = $20,000

Description	Revolving fund Statement of operations DR (CR)	Revolving fund Balance sheet DR (CR)	Responsible department Central Accounts DR (CR)	Receiver General Central Accounts DR (CR)
Accounts receivable—Other government departments		$20,000		
Allowance for termination benefits		$5,000		
ANCAFA		($25,000)		
Revolving fund expenditure			$25,000	
CRF				($25,000)
To record the payment of termination benefits to a revolving fund employee. The portion accrued before the revolving was established will be collected from the Treasury Board.				

	Revolving fund		Responsible department	Receiver General
Description	Statement of operations DR (CR)	Balance sheet DR (CR)	Central Accounts DR (CR)	DR (CR)
ANCAFA Accounts receivable—Other government departments		$20,000 ($20,000)		
Revolving fund expenditure Other government departments' expenditure Vote			($20,000) $20,000	
To record the accounts receivable collected from the Treasury Board for termination benefits accrued before the revolving fund unit was established.				

Example 3:

The revolving fund has completed its fifteenth year of operation and must now account for all employee termination benefits accrued before the revolving fund was established.

	Revolving fund		Responsible department	Receiver General
Description	Statement of operations DR (CR)	Balance sheet DR (CR)	Central Accounts DR (CR)	DR (CR)
Accumulated (surplus)/deficit Allowance for termination benefits		$110,000 ($110,000)		
To recognize the liability for payment of termination benefits accrued to employees before the revolving fund was established. This represents a change in accounting policy since the Treasury Board is no longer accountable for paying these benefits. This change is recorded as a prior-year adjustment and therefore is debited against the revolving fund's operating performance over the last fifteen years by a charge to the accumulated surplus/deficit account.				

6150 Revenue collected in advance

As a rule, a revolving fund should not require prepayment from other federal government departments, as its operations and services on behalf of other departments are expected to be temporarily financed from its drawdown authority.

Advance payments from other federal government departments cannot be carried over between fiscal years unless such action has been previously approved by Treasury Board. Any balance remaining on hand must be returned before March 31, even if the project pertaining to the advance has not been fully completed.

When advance payments are required, they must be related to and cannot exceed the value of the work reasonably expected to be performed during the fiscal year in which the advance payment is made. Payments accepted in advance should be in accordance with a direct contractual obligation or agreement. Advance payments from outside parties should be presented on the balance sheet as advance payments. Any other internal advances, if any, must be refunded before year end (March 31).

The following journal entry is needed to recognize unearned revenue.

	Revolving fund		Responsible department	Receiver General
Description	**Statement of operations DR (CR)**	**Balance sheet DR (CR)**	**Central Accounts DR (CR)**	**DR (CR)**
ANCAFA		$2,000		
Unearned rental revenue		($2,000)		
Revolving fund expenditure			($2,000)	
CRF				$2,000
To record the prepayment for services that the revolving fund will provide to a client.				

6160 Contributed capital

“Contributed capital” is an equity account that normally represents the value of capital assets financed from contributed capital, being brought into an operation such as a revolving fund. This account serves as a financing arrangement, which is approved by the Treasury Board on an exception basis, as a substitute for the normal financing of capital assets under the authority of the revolving fund.

The financing of assets by the revolving fund results in a recognition of capital assets offset by an increase to the ANCAFA. However, when the contributed capital method is approved, the capital assets are still accounted for but the offset is to the “contributed capital” equity account.

The net value of capital assets transferred to a revolving fund, but financed by contributed capital, must be amortized in a rational and systematic manner over their useful lives, similar to those assets funded out of the revolving fund’s authority. Recognizing amortization in this way allocates the cost of capital assets to the periods in which these assets are being used to provide client services. Regardless of how the assets are funded, amortization expense is an important part of the cost associated with providing an organization’s services and goods.

The Treasury Board may approve the use of a contributed capital account when a revolving fund is created, reorganized or restructured. A request for this type of financing will be approved only if it positively affects the revolving fund’s financial viability. This factor must be clearly outlined in the Treasury Board submission, including the initial impact on the authority and the future impact on operations. In the précis of the Treasury Board submission, the Treasury Board Secretariat program analyst will identify the reasons for approving the use of contributed capital and any impact on resource allocation issues.

Two major impacts are:

1. if the capital assets are not set up as contributed capital, then the authority limit (i.e. ANCAFA) will be affected, and

2. there will be no interest charge on contributed capital. Interest is charged, where applicable, only in situation where there is a net credit balance shown in the ANCAFA account (*refer to Section 6270 Interest Expense on Drawdown*).

If there is a write off, the Treasury Board decision will be taken in accordance with GAAP for government business type organizations. The following entries show how to record contributed capital initially and, if approved, how eventually to write it off.

<table>
<tr><th rowspan="2">Description</th><th colspan="2">Revolving fund</th><th>Responsible department</th><th>Receiver General</th></tr>
<tr><th>Statement of operations DR (CR)</th><th>Balance sheet DR (CR)</th><th colspan="2">Central Accounts
DR (CR) | DR (CR)</th></tr>
<tr><td>Capital assets
Contributed capital</td><td></td><td>$50,142,000
($50,142,000)</td><td></td><td></td></tr>
<tr><td colspan="5">To record the contributed capital following the transfer of capital assets to the revolving fund in accordance with (the Treasury Board reference dated DD-MM-YYYY).</td></tr>
<tr><td>Contributed capital
Accumulated surplus</td><td></td><td>$50,142,000
($50,142,000)</td><td></td><td></td></tr>
<tr><td colspan="5">To record the write-off of contributed capital in accordance with (the Treasury Board reference dated DD-MM-YYYY).</td></tr>
</table>

6170 Accumulated net charge against the fund’s authority (ANCAFA)

The ANCAFA is an equity account which is disclosed in the revolving fund unit’s balance sheet. This account records the amount of the fund’s non-lapsing authority that has been used since inception of the fund. At no time should the balance of this account exceed the total amount of the fund’s non-lapsing authorization from Parliament. The ANCAFA account comprises:

- accumulated net expenditures charged to the CRF by the revolving fund since its establishment;

- accumulated amounts representing the value of assets placed at the disposal of the fund, less amounts of obligations assumed by the fund; and

- amounts of deficits or surpluses that have been authorized to be deleted from the fund.

In the responsible department’s accounts, the use of the ANCAFA in the current year will be derived from the expenditures and revenues of the revolving fund unit that are processed in a department budgetary statutory account. These transactions are processed on a modified cash basis of accounting. Proper application of the modified cash basis of accounting is particularly important at year end. This means that in the responsible department’s accounts, expenditures are processed on an accrual basis of accounting and revenues are processed on a cash basis, except for those revenues that are internal to the government, which must be processed on an accrual accounting basis. (*See Section 7100 Year-end Reconciliation.*)

The net value of the transactions affecting the budgetary statutory account in the books of the department is the source of transactions that the ANCAFA used in the current year.

An example of a transaction that affects the ANCAFA in the revolving fund unit’s books and the account in the department’s books, is the collection of an account receivable with a non-government entity. In the revolving fund account, the revenue is recorded when earned but the ANCAFA account is affected only when the cash is received. The control account held by the department for the revolving fund unit is also affected when cash is received.

	Revolving fund		Responsible department	Receiver General
Description	**Statement of operations DR (CR)**	**Balance sheet DR (CR)**	**Central Accounts DR (CR)**	**DR (CR)**
CRF				$10,000
Revolving fund expenditure			($10,000)	
ANCAFA		$10,000		
Accounts receivable—Outside parties		($10,000)		
To record the collection of an account receivable. The cash received will decrease the use of the drawdown authority (similar to a revolving line of credit provided in the private sector by credit institutions.				

At year end, only money received by March 31 will affect the authority used in the current year. Money received after March 31 will be recorded to the revolving fund's Expenditures Vote in the subsequent year.

6180 Accumulated surplus/deficit

This account is used to record the net accumulation of income and loss arising from the operation of the unit, and under certain circumstances, the transfer of all or part of accumulated deficit to ANCAFA (Parliamentary authority required), or the transfer of all or part of the accumulated surplus to ANCAFA (Treasury Board approval required).

6181 Write-off of accumulated deficit

Accumulated deficits shall remain in the accounts of the fund until final disposition is approved by the Treasury Board and by Parliament through an *Appropriation Act*. A Treasury Board submission, including the amount and the reason(s) for the deletion, is required to request the necessary authorization to effect the write-off.

The following is an example of an accounting entry to delete an accumulated deficit.

	Revolving fund		Responsible department	Receiver General
Description	**Statement of operations DR (CR)**	**Balance sheet DR (CR)**	**Central Accounts DR (CR)**	**DR (CR)**
ANCAFA		$10,000,000		
Accumulated deficit		($10,000,000)		
To record the deletion of a deficit in accordance with the authority granted by Parliament (specify the particulars of the authority to write off the amount).				

The responsible department will reflect the deletion of a revolving fund's accumulated deficit by disclosing the impact in the Estimates and Public Accounts. The authority is adjusted and the authority available for use in subsequent years is increased.

The departmental summary will reflect the following:

6182 Ministry summary

Source of authorities Disposition of authorities

Available from previous years	Main Estimates	Supplementary Estimates	Adjustment and transfer	Total available for use	Vote	Department	Used in the current year	Lapsed or over-expended	Available for use in subsequent years	Used in the previous year
$2,939,000				$2,939,000	S		$1,959,000			
			$10,000,000	$10,000,000		Write-off operating losses for fiscal years 1995-96 to 1996-97				
$2,939,000	…	…	$10,000,000	$12,939,000		Total XYZ revolving fund	$1,959,000	…	$10,980,000	$1,602,550

6183 Write-off of accumulated surplus

The write-off of accumulated surplus to the ANCAFA only requires Treasury Board approval. Since this action reduces spending authority and no parliamentary authorization is required.

The Treasury Board may direct the deletion of operating surpluses if there is no expectation of offset by future deficits. The rationale for this write-off is that the Treasury Board may want to reduce an excessive authority limit which has accumulated over past years.

The following is an example of an accounting entry to delete part of an accumulated surplus.

	Revolving fund		Responsible department	Receiver General
Description	**Statement of operations DR (CR)**	**Balance sheet DR (CR)**	**Central Accounts DR (CR)**	**DR (CR)**
Accumulated surplus	$5,750,000			
ANCAFA		($5,750,000)		
To record the deletion of a surplus in the revolving fund as approved by the Treasury Board (include specific reference).				

The responsible department will reflect the deletion of an accumulated surplus of its revolving fund by disclosing the impact on its authority in the Public Accounts of Canada. The authority is adjusted and the authority available for use in the subsequent year is decreased.

The department summary will include the following additional information.

Source of authorities					Disposition of authorities					
Available from previous years	Main Estimates	Supplementary Estimates	Adjustment and transfer	Total available for use	Vote	Department	Used in the current year	Lapsed or over-expended	Available for use in subsequent years	Used in the previous year
$26,000,000				$26,000,000	S		- $3,750,000			
			($5,720,000)	($5,720,000)		Write-off of accumulated surplus over the last three years				
$26,000,000	...	...	($5,750,000)	$20,250,000		Total XYZ revolving fund	- $3,750,000	…	$24,000,000	$4,404,000

6200 Cost of sales

Cost of sales comprises all the costs that can be directly related to producing a product, whether it is manufactured in house or purchased from a supplier.

The cost of goods sold is displayed in the statement of operations as a reduction from sales revenues. *(See Section 5200 Statement of Operations.)*

When such merchandise is acquired from outside suppliers, the cost relating to sales can be determined as being the sum of the cost of beginning inventory, plus purchases and any freight and storage costs related to the acquisitions, less the cost of any merchandise on hand at the end of the period.

Should merchandise be manufactured by the revolving fund, the cost of goods sold or manufactured, is calculated by deducting the end cost of goods in progress from the figure obtained by adding the following elements together:

- the cost of goods in process at the beginning of the period;
- the cost of materials put into the production;
- the direct labour costs; and
- the general overhead expenses such as the cost of running the plant and equipment such as amortization of plant/equipment, indirect labour, power, light and heat.

Less the ending cost of good in process

6240 Amortization

Apply GAAP to determine and account for amortization of capital assets. Refer to the *CICA Handbook* for further clarification on this subject. Also, review the draft Treasury Board policy on accounting for capital assets for guidelines on estimated service life, amortization methods and rates used.

Amortization is the charge to income that recognizes that the life of a capital asset is finite. Allocate the cost, less salvage or residual value of a capital asset to the periods of service provided by the asset. The amount of amortization to be allocated to operations is the cost of the asset less expected salvage value or residual value over the life of the asset.

Do not amortize capital assets that have an unlimited life, such as land.

When the useful life of a capital asset other than land is expected to exceed 40 years and cannot clearly be clearly estimated or demonstrated, the amortization period is limited to 40 years.

Capital assets transferred into the revolving fund at its establishment should be recorded at appropriate net book value. Net book value is the cost less accumulated amortization. Where possible, existing capital assets should be valued using historical costs, adjusted for the proportion of the economic life of the asset already consumed. Historical cost is simple to administer and less vulnerable to manipulation. Where it is not practicable to establish a reasonable estimate of an asset's historical cost, use an appraised value or some appropriate measure of current value and extrapolate back to estimated historical cost using the Consumer Price Index (CPI). Do not use replacement cost unless it is the lowest of the several cost alternatives. Amortize that net book value over the estimated remaining useful life of the capital assets.

Allocate the cost of capital assets purchased after the establishment of the revolving fund to the operations of the fund over their estimated useful life.

Different methods of amortizing a capital asset generally result in different patterns of charges to income. The objectives are the provision of a rational and systematic basis for allocating the acquisition cost of a capital asset over its estimated useful life. Amortization of assets where the appropriate measure of service life is in years, should be on a straight-line basis. Review the amortization method and estimates of the life of a capital asset regularly.

Amortization shall commence on the first day of the month following the month the expenditure for the asset is recorded.

The following is an example of an entry required to record amortization of assets.

	Revolving fund		**Responsible department**	**Receiver General**
Description	**Statement of operations DR (CR)**	**Balance sheet DR (CR)**	**Central Accounts**	
			DR (CR)	**DR (CR)**
Amortization Accumulated amortization— Equipment	$600	 ($600)		
To record amortization for equipment purchased in the fiscal year.				

The calculation is as follows:

- Purchased in September at a cost of $6,000
- Estimated useful life is five years with no salvage or residual value
- Amortization calculation: $6,000/(5 years X 6/12 months) = $600

Note: An accounting entry is not required in the books of the responsible department since the current significant accounting principles of the government do not allow for the recognition of amortization costs.

6260 Gain or loss on disposal of capital assets

Revolving fund should establish procedures to ensure that, when capital assets become obsolete or are removed from service, there is a write off or write down of the net carrying amount of the assets to their net realizable value. If the capital asset is subsequently returned to service, its book value should not be set up again. The only time the book value can be increased, is when a betterment has been made. If this happens, the increase in value is restricted to the costs of the betterment. (See the Treasury Board draft policy on accounting for capital assets.)

When a disposal of capital assets takes place, record the net proceeds in the ANCAFA and, when appropriate, record a gain or loss on the disposal according to GAAP. The proceeds from the sale of assets will increase the spending authority level of the revolving fund.

The statement of operations discloses financial information concerning any gain or loss on disposal of capital assets, and the statement of changes in financial position will reveal shows the proceeds of disposal.

The following table illustrate two examples of journal entries required on disposal of capital assets.

Example 1: A capital asset originally costing $5,000, which has been amortized by $1,000, is sold for $3,500

	Revolving fund		Responsible department	Receiver General
Description	**Statement of operations DR (CR)**	**Balance sheet DR (CR)**	**Central Accounts DR (CR)**	**DR (CR)**
Loss on disposal of equipment	$500			
Equipment		($5,000)		
Accumulated amortization—Equipment		$1,000		
ANCAFA		$3,500		
Revolving fund expenditure			($3,500)	
CRF				$3,500
To record the sale of a partially amortized capital asset at a loss.				

Example 2: The same capital asset was sold for $4,500

	Revolving fund		Responsible department	Receiver General
Description	**Statement of operations DR (CR)**	**Balance sheet DR (CR)**	**Central Accounts DR (CR)**	**DR (CR)**
Gain on disposal of equipment	($500)			
Equipment		($5,000)		
Accumulated amortization—Equipment		$1,000		
ANCAFA		$4,500		
Revolving fund expenditure			($4,500)	
CRF				$4,500
To record the sale of a partially amortized capital asset at a gain.				

6270 Interest expense on drawdown

All revolving funds are charged interest on the negative balance of the ANCAFA account. Revolving funds use the CRF via their responsible department in a manner similar to a draw on a line of credit. Consequently, interest must be paid on any drawdown on this authority. The interest cost is an expense to earn revenue. Therefore, any resulting interest charges must considered in establishing pricing and rate structures for the goods and services offered.

6271 Exemption from paying interest

Applicable interest charges must be calculated and paid by all revolving funds unless exempted by the Treasury Board under the terms and conditions of the enabling authority. Approval may be granted only in an exceptional circumstance, for example, a legislative mandate in some way makes it impossible to apply interest charges to a program activity; and

6272 Interest revenue on surplus ANCAFA

The government does not pay interest on any accumulated surplus in the ANCAFA account. No exemptions apply.

6273 Basis for the interest calculation

The ANCAFA account represents the net amount of cash and cash-equivalents utilized by the revolving fund since inception via the departmental revolving fund expense account, offset by any deposits to the CRF and adjusted for any other entries such as net assets assumed.

At period end, the cumulative drawdown amount used to calculate interest is based on the following transactions processed through the ANCAFA:

- the carry forward from the previous year of net authority used, according to the reconciliation of unused authority; and

- the current year-to-date drawdown on a monthly basis (periods 1-12), as reflected in the general ledger of the Accounts of Canada.

The above two items make up the base data used to calculate interest. These figures are then adjusted by the following items to arrive at the “true” cash drawdown:

- outstanding payables at month end and year end for both other government departments and outside suppliers. Adjustments for payables at year end (PAYE) and payment on due date (PODD) transactions are to be deducted from the general ledger account, as appropriate in the monthly calculation. In the financial statements, show these items as payables. Note that they do not affect the cash draw; and

- other non-cash items such as adjustments that may be necessary in special circumstances but result in an incorrect charge computation. Continual periodic adjustments will be necessary until such items clear.

The above calculations provide the “cash used” by the revolving fund in each particular period. The adjustments made for periods 13, 14, and 15 of the current year and the previous year will result in a figure for the “net authority used”. Adjust the transactions of current year periods 13, 14 and 15 in the appropriate periods 1, 2 or 3 of the subsequent year. All revolving funds should determine the amount of cash used and net authority used in a similar manner to ensure calculations are made on a consistent basis.

Ensure that the final quarter payment is processed by interdepartmental settlement so that the internal interest revenue figures (reported by Finance) and interest expenditure (reported by the revolving fund) are equal.

The revolving funds take the initiative for the recording of interest charges in the Accounts of Canada**.** Interest payments are made to the Department of Finance via the IS process through Source 060 and using economic objects within standard objects 15 and 16. Interest must be calculated monthly and remitted quarterly. Record the payment in the period following each quarter. Before the beginning of a fiscal year, the revolving fund must ensure that appropriate creditor account code information is available from the Department of Finance (the creditor department), to facilitate timely recording.

An example of the application of these interest calculation guidelines is included in a chart at the end of this section. Each month, the Department of Finance determines the rate used to calculate the interest expense as of the last day of each month. To receive information on the monthly rate schedule, contact the following office:

Chief, Public Debt
Financial Services Division
Administration Branch
Treasury Board Secretariat
5th Floor, East Tower
140 O'Connor Street
Ottawa Ontario K1A 0R5
Tel.: (613) 995-4522

Calculate interest as of the last day of the month and record it as an operating expense. The following are examples of the journal entries required to record the interest expense using the sample data included in the chart.

	Revolving fund		**Responsible department**	**Receiver General**
Description	**Statement of operations**	**Balance sheet**	**Central Accounts**	
	DR (CR)	**DR (CR)**	**DR (CR)**	**DR (CR)**
Interest expense	$27,765			
Accounts payable		($27,765)		
To record accrued interest expense for the month of April.				
Accounts payable		$55,708		
ANCAFA		($55,708)		
Revolving fund expenditure (SO 15)			$55,708	
Return on investment (SO 16)				($55,708)
To record the interest payment via an IS for the first quarter (April = $27,765, May = $3,377 and June = $24,566)				

Calculation of Interest applicable to revolving fund
Concept

The Revolving fund do not pay interest on charges that have not resulted in a draw from the CRF. Deposits credited to the CRF, after the cut off date, do not reduce the amount subject to interest.

Opening data	
ANCAFA	**5,000,000**
PLUS	
	2,000,000
LESS	
Amounts credited to appropriation after March 31, 19xx	(2,800,000)
AUTHORITY USED at March 31, 19xx	**4,200,000**

DESCRIPTION	Period 1	Period 2	Period 3	Period 4	Period 5	Period 6	Period 7
Authority used March 31, previous year	**4,200,000**	**4,200,000**	**4,200,000**	**4,200,000**	**4,200,000**	**4,200,000**	**4,200,000**
Drawdown YTD for the period	1,500,000	(2,500,000)	300,000	(4,000,000)	1,500,000	400,000	(1,800,000)
LESS:							
PAYE end of period	1,600,000	1,200,000	800,000	350,000	200,000	35,000	10,000
PODD outstanding end of period	30,000	15,000	10,000	50,000	40,000	30,000	15,000
Other non cash items (not yet drawn on the CRF)							
CORRECTIONS							
Correction of suspense clearing adjustments	none	none	none	none	(125,025)	none	none
Amount subject to interest	**4,070,000**	**485,000**	**3,690,000**	**(200,000)**	**5,585,025**	**4,535,000**	**2,375,000**
Interest rate	8.3%	8.2%	8.1%	7.8%	7.9%	7.7%	7.6%
# days	30	31	30	31	31	30	31
Interest	27,765	3,377	24,566	surplus	37,473	28,700	15,330
			55,708			**66,173**	
			IS required for this amount			IS required for this amount	

DESCRIPTION	Period 8	Period 9	Period 10	Period 11	Period 12	Period 13	Period 14
Authority used March 31, previous year	**4,200,000**	**4,200,000**	**4,200,000**	**4,200,000**	**4,200,000**	**4,200,000**	**4,200,000**
Drawdown YTD for the period	800,000	250,000	275,000	475,000	600,000	2,475,000	2,510,000
LESS:							
PAYE end of period	–					2,000,000	2,050,000
PODD outstanding end of period	10,000	35,000	25,000	15,000	45,000	45,000	45,000
Other non cash items (not yet drawn on the CRF)							
CORRECTIONS							
Correction of suspense clearing adjustments	none	none	none	none	none	none	none
Amount subject to interest	**4,990,000**	**4,415,000**	**4,450,000**	**4,660,000**	**4,755,000**	**4,630,000**	**4,615,000**
Interest rate	7.5%	7.7%	7.65%	7.8%	7.7%		
# days	30	31	31	28	31		
Interest	30,760	28,872	28,912	27,883	31,096		
		74,962			**87,891**		
		IS required for this amount			IS required for this amount		

Note 1
These timing differences will be adjusted using the net authority used as the carry forward figures from the previous year.

6290 Extraordinary items

Extraordinary items result from transactions or events that include **all** of the following characteristics:

- they do not expected to occur frequently;

- they do not typify the normal business activities of the revolving fund; and

- they do not depend primarily on decisions or determinations made by management.

An example of an extraordinary loss would be damage caused by weather-related event such as a flood. An example of an extraordinary gain would be the gain from the sale of land (only land not used in delivering the activity can qualify) which met all of the characteristics listed above. Not to included in this category are such items as losses and provision for losses as a result of bad debts and adjustments to contract prices.

Report extraordinary gains or losses separately on the statement of operations and the statement of changes in financial position. They should be also fully explained by means of a note to the revolving fund statements.

The following is an example of the journal entry required to record a decrease in value of inventory due to a flood.

	Revolving fund		**Responsible department**	**Receiver General**
Description	**Statement of operations DR (CR)**	**Balance sheet DR (CR)**	**Central Accounts DR (CR)**	**DR (CR)**
Extraordinary loss on inventories	$100,000			
Inventories		($100,000)		
To record the decrease in value of inventories due to a flood.				

6300 Goods and Services Tax (GST)

The deputy head of the department has been delegated authority to add, delete from or make any other amendments to the "Government of Canada Reporting Entities Register" for the purposes of sub-section 239(1) of the *Excise Tax Act*, as may be appropriate with respect to that portion of the Public Service for which the deputy head is responsible. Consequently, a revolving fund unit may be established as a separate GST reporting entity within the department.

For information on applying GST, consult the *Policy on the Application of the Goods and Services Tax and the Harmonized Sales Tax in the Departments and Agencies of the Government of Canada*.

The GST is assigned a source object but not a standard object in accordance with the government's chart of accounts coding structure. Record the GST portion of each transaction involving the purchase or the sale of a taxable good or service, respectively, as an account payable or an account receivable. Record payment of GST on a separate line of coding on each payment requisition. Do not include GST as part of the liability set up under PAYE.

The management of a revolving fund will choose one of the following two methods to record and report GST:

- record the GST expenditures and revenues to the department's accounts directly; or

- maintain unit records and audit trails for GST expenditures and revenues and journalize these GST expenditures and revenues to the department's accounts monthly.

6301 Record the GST expenditures and revenues to the department's accounts directly

Expenditure

When an invoice for a taxable transaction is paid to a GST registrant, the GST portion should be coded to the Refundable Advance Account (RAA) in the responsible department's general ledger. The expense exclusive of the GST will be recorded to the applicable expense account.

	Revolving fund		Responsible department	Receiver General
Description	**Statement of operations DR (CR)**	**Balance sheet DR (CR)**	**Central Accounts DR (CR)**	**DR (CR)**
Expenses	$100			
Accounts payable		($100)		
To record an account payable for a taxable good or service rendered to the revolving fund unit.				
Accounts payable		$100		
ANCAFA		($100)		
CRF				($107)
Revolving fund expenditure			$100	
GST Refundable Advance Account			$7	
To record the payment of the account payable. The GST applicable to the purchase of a taxable good or service is recorded directly to the department's account.				

Revenue

The Receiver General has assigned each department a central account, which is used to record the GST revenue collected directly on taxable sales. The responsible department reports all of its GST revenues, including those of the revolving fund, to Revenue Canada each month. At the end of a fiscal year, the Receiver General offsets centrally the GST Expenditure Accounts (Refundable Advance Account) to the Revenue Canada GST Revenue Accounts.

	Revolving fund		Responsible department	Receiver General
Description	Statement of operations	Balance sheet	Central Accounts	
	DR (CR)	DR (CR)	DR (CR)	DR (CR)
Accounts receivable		$200		
Revenues	($200)			
To record an account receivable relating to the sale of a taxable good or service rendered by the revolving fund unit.				
Accounts receivable		($200)		
ANCAFA		$200		
CRF				$214
Revolving fund expenditure			($200)	
GST revenue			($14)	
To record the collection of the account receivable. The GST applicable to the sale of good or service is recorded directly in the department's account.				

6302 Maintain records and audit trails for GST expenditures and revenues and journalize GST expenditures and revenues to the department's accounts monthly

Expenditure

	Revolving fund		Responsible department	Receiver General
Description	Statement of operations	Balance sheet	Central Accounts	
	DR (CR)	DR (CR)	DR (CR)	DR (CR)
Expenses	$100			
Accounts receivable— GST expense		$7		
Accounts payable		($107)		
To record an account payable and the GST portion relating to the purchase of a taxable good or service rendered to the revolving fund unit.				
Accounts payable		$107		
ANCAFA		($107)		
CRF				($107)
Revolving fund expenditure			$100	
GST Refundable Advance Account			$7	
To record the payment of the account payable.				
Accounts receivables— GST expenses		($7)		
ANCAFA Contributed capital Accumulated surplus		$7		
To record a journal voucher to transfer the amount of GST charged to the authority of the revolving fund to the GST Refundable Advance Account (asset account) of the responsible department.				

Revenue

	Revolving fund		**Responsible department**	**Receiver General**
Description	**Statement of operations DR (CR)**	**Balance sheet DR (CR)**	**Central Accounts DR (CR)**	**Central Accounts DR (CR)**
Accounts receivable		$214		
GST payable		($14)		
Revenues	($200)			
To record an account receivable and the GST portion relating to the sale of a taxable good or service rendered by the revolving fund unit.				
Accounts receivable		($214)		
ANCAFA		$214		
CRF				$214
Revolving fund expenditure			($200)	
GST revenue			($14)	
To record the collection of the account receivable and of the GST revenue portion.				

	Revolving fund		**Responsible department**	**Receiver General**
Description	**Statement of operations DR (CR)**	**Balance sheet DR (CR)**	**Central Accounts DR (CR)**	**Central Accounts DR (CR)**
ANCAFA		($14)		
GST payable		$14		
To record a journal voucher that will transfer the GST remittance from the authority of the revolving fund to the GST revenue account of the responsible department.				

6320 Common service costs

Common service costs may include direct costs (e.g. accommodation, materials and supplies) or indirect costs (including overhead expenses) charged by either the host department or other government department(s). These costs should be included as part of the operating costs of the revolving fund. The governing principle is that revolving funds will include in their costs of operations the same type of costs that similar operations in the private sector incur.

Each year, fund managers should review any agreements or memoranda of understanding relating to the allocation of common service costs. Closely analyze the overhead cost of common services. Overhead costs should not include the costs of the structural overhead of departments (such as the minister’s office and deputy minister’s office) which serves a broad public purpose. Such costs should instead be paid out of the departmental appropriation. To the extent that a revolving fund uses or shares the costs of departmental overhead, it should only bear that portion of the costs directly attributable to the goods or services being provided (e.g. accounting services, materiel and contract services, personnel services).

As a revolving fund is normally expected to recover the full cost of operations, common service costs must form part of the cost structure used to determine user fees for goods and services.

6330 Subsidies

A subsidy is funding received or provided by a revolving fund that does not require the recipient to do or provide anything in return. Fully disclose each subsidy received in the financial statements and state its source of funding.

Examples of subsidies include the following:

- mandated services that are provided at less than full cost recovery, with non-users of the service (usually the department) making up the difference; and

- payments made by the department to offset losses in revenues, such as municipal grant equivalents.

Since subsidies affect the financial position and costing structures of a revolving fund, appropriate disclosure is necessary to help interested parties evaluate the impact of this assistance on the viability of the fund's operations. The disclosure should contain the following information:

- the amount of the subsidy; and

- the relevant terms and conditions of the subsidy.

Record each subsidy in the books of the revolving fund and disclose particulars it in the operating statements as revenue. Explain details of these subsidies in a note to the financial statements.

6340 Refunds of revenues collected in previous year

Situations may arise where revenue received in a previous year must be refunded. Record such refunds as reductions of revenue in the current year.

However, if the information on revenue received in the current year becomes available before the revolving fund's year-end financial statements are finalized, you would make an accrual entry to record an account payable in the current year and reduce the revenue reported for the year accordingly.

	Revolving fund		**Responsible department**	**Receiver General**
Description	**Statement of operations DR (CR)**	**Balance sheet DR (CR)**	**Central Accounts DR (CR)**	**DR (CR)**
Revenue (revenue source same as original)	$1,000			
ANCAFA		($1,000)		
Revolving fund expenditure			$1,000	
CRF				($1,000)
To record the refunds of the revenues collected in previous year(s) adjusted against the original revenue source.				

6380 Accounting changes and prior period adjustments

Situations occasionally arise where the financial statements include gains or losses that pertain to the income or expenses of prior periods.

Prior period financial results should be adjusted only to reflect a change in an accounting policy applied retroactively or to correct a fundamental error (*CICA Handbook*, Chapter 1506 Accounting Changes).

To account for a change in an accounting policy, the adjustment is based on the date that an item was first recognized or accepted in the financial statements, not the date that the item was first discovered. For example, an item recognized in the current fiscal year beginning April 1, 1996 or after would be treated as a current period item and not as a prior period adjustment.

Gains or losses that qualify as prior period adjustments happen infrequently. For comparative purposes, prior periods are to be restated as necessary to reflect the retroactive application of a prior period adjustment.

The current period statements, should:

- exclude any prior period adjustments from the determination of net income for the current period; and

- describe the prior period adjustment and the effect the correction has on the current period as well as prior period statements, and a note that the financial statements of prior periods have been restated.

Depending on the nature of the adjustment, it may be appropriate to disclose the effect of this correction on significant items such as net income and working capital.

In the case of a historical summary of income for a number of periods, prior period adjustments should be applied retroactively to correspond to the appropriate periods.

(*See the Public Accounts Instructions Manual (PAIM) for more information on the presentation of prior period adjustments.)*

6390 Year-end adjustments for refunds of prior year expenditures and Payable At Year End (PAYE)

6391 Refunds of prior year expenditures

In the government's policy, moneys received on April 1 and on or before the cut-off date for period 13 must be credited to the old fiscal year if they comprise receipts covering refunds of old-year budgetary expenditures. These cash refunds are known as category "B" receipts in the Receiver General's year-end directive. If it does not represent a recovery of a prior period expenditure than the revolving fund must record cash received after April 1 as a new year transaction.

6392 PAYE

Revolving funds will account for financial transactions in accordance with the current PAYE policy. Credit or debit any difference between a settled PAYE and the PAYE amount accrued to the revolving fund's expenditure account.

In the revolving fund's March 31 financial statements, credit the refund to new year expenses. The timing of the item will affect the reconciliation between the ANCAFA and the revolving fund's expenditure vote.

6400 Bid deposits

Bid deposits are security deposits received from contractors following a request for tender and are deposited as received. They may be represented by a certified cheque or government-guaranteed bonds receipt of which must be accounted for as assets of the department and the revolving fund.

Revolving funds may also tender and bid to obtain contracts. Bids made to obtain a contract outside the government must be made in accordance with the *Financial Administration Act*.

Responsible departments monitor these deposits in order to provide data for the Public Accounts of Canada.

6401 Bid deposit received from tender

	Revolving fund		**Responsible department**	**Receiver General**
Description	**Statement of operations DR (CR)**	**Balance sheet DR (CR)**	**Central Accounts DR (CR)**	**Central Accounts DR (CR)**
CRF				$1,000
Bid deposit liability			($1,000)	
ANCAFA		$1,000		
Bid liabilities		($1,000)		
To record the bid liability to company XYZ for bid received on project "A."				
Bid deposit liability			$1,000	
CRF				($1,000)
Bid liabilities		$1,000		
ANCAFA		($1,000)		
To record the refund of bid to company XYZ.				

6402 Bid made to a tender request

Description	Revolving fund: Statement of operations DR (CR)	Revolving fund: Balance sheet DR (CR)	Responsible department: Central Accounts DR (CR)	Receiver General: Central Accounts DR (CR)
Bid deposit CRF Bid deposit asset ANCAFA		 $1,000 ($1,000)	1,000	 ($1,000)
To record the bid made to company ABC for tender request on project "Z."				
CRF Bid deposit ANCAFA Bid deposit asset		 $1,000 ($1,000)	 ($1,000)	$1,000
To record the refund of bid made to company ABC on project "Z." (If the revolving fund was successful in the ABC tender bid, the bid adjustment will be to the revolving fund's expenditure vote.)				

7000 Specialized areas

There are topics that require consideration relating to the operating and reporting practices for revolving funds and these are included in this section.

7010 Cost allocation method

Normally costs are recorded on a direct basis (e.g. supplies, inventory items, employee expenses), except for assets that are amortized. There are many unique methods for arriving at costs (refer to the Treasury Board *Guide to the Costing of Outputs*). Whichever method is used (e.g. activity-based costing, standard costs), explain why the method was selected as a note to the financial statements. Overhead cost allocation requires unique handling and is explained below.

"Direct costs" are costs that would only be incurred to produce or provide the good or service in question and can be precisely attributable to that good or service. Typical direct costs include the following:

- direct labour (salary and all benefits of those working directly to provide a service or produce a good);

- direct material costs (material and supplies used to provide a service or produce a good); and

- direct operating costs (e.g. accommodation, professional services, travel) used to deliver the goods or services.

"Indirect costs" are the overhead costs incurred at least in part, to deliver the goods or services in question. Indirect costs are allocated to the services they support. However, the costs of central agencies are excluded from the calculation of indirect costs. Indirect, or overhead, costs typically include the following:

- a portion of program support such as supervisory and management staff;

- a portion of corporate-wide functions such as personnel, finance, informatics, legal services, audit and communications;

- a portion of departmental costs such as accommodations and utilities. (such costs may have direct and indirect lines); and,

- a portion of departmental senior management costs.

When the revolving fund has its own corporate structure and does not receive services from the responsible department, the responsible department will not recover a charge for corporate services. When the revolving fund operates within the responsible department infrastructure, the department will fully recover administrative, management and other costs incurred on behalf of the revolving fund on a prorata basis. Examples of these recoverable corporate overhead costs include the following:

- administration services costs (e.g. finance, personnel, materiel, real property); and

- management and support services costs (e.g. security, travel, corporate planning, information management, audit and evaluation).

Representatives of the responsible department and the revolving fund need to establish a corporate cost allocation model (CCAM) that best represents the overhead costs to be charged to the revolving fund by the responsible department.

Corporate overhead costs should be paid to the responsible department at least quarterly. The responsible department may choose to bill the revolving fund unit based on budgeted expenditures during the year. Any difference between the amounts billed on a budgetary basis and the actual charge will be adjusted when the actual charges are determined.

7020 Accounting system

The revolving fund unit will require an accounting system that can offer typical business entity functionality (e.g. inventory and capital asset management, accounts receivable, full accrual accounting, cost accounting). The activities financed by the revolving fund unit must be accounted for separately from the activities financed by other appropriations.

Since the revolving fund unit must recover its full or almost full costs, the details of its departmental overhead charges will be important. These costs represent expenses under the fund. As well, they affect the revolving fund unit drawdown authority and, potentially, the amount of interest payable. Include all overhead charges incurred by the revolving fund (e.g. costs associated with inventory management activities, contracting, personnel and accommodation) in the fund’s accounting system.

As a minimum, the accounting system must provide for the following:

- the preparation of both periodic and year-end financial statements on a full accrual and cost basis of accounting in accordance with GAAP; and,

- the preparation and submission of both periodic and year-end data to the Receiver General on a modified accrual basis of accounting in accordance with Receiver

General directives to meet all accounting requirements for the revolving fund's budgetary appropriation.

The accrual method of accounting records a number of non-cash transactions, such as termination benefits and the amortization, gain or loss on the disposal of capital assets.

Revolving funds must also schedule their cash requirements out of the CRF. As a result, the accrual records must be reconcilable to the records kept on a modified cash basis of accounting for the purpose of the Main Estimates and the Public Accounts. The financial systems of the revolving fund should be well coordinated with those of its responsible department.

7030 Public accounts

The revolving fund unit must submit its financial statements to the Receiver General (RG) of Canada annually, as required in the PAIM.

The PAIM describes the formats, contents and due dates of the reports that must be prepared. As well, other financial information required by the PAIM will be submitted through various departmental reporting channels.

The financial statements of revolving funds are published annually in Section 1 of Volume II (Part II) of the Public Accounts of Canada.

7040 Audit

Revolving funds were subject to external audits until approximately 1984. At that time, the Auditor General of Canada stated that he did not need to audit revolving fund statements since he could do his review by applying statistical sampling techniques against transactional activity at the central account level. In any event, his audit engagement was with the Government of Canada and relative to its financial statements, not the specific results and financial position of revolving funds.

Departments should however, schedule annual audits on the financial statements of their revolving fund(s). This action provides the departmental management team with supporting information on revolving fund operations to help them prepare the annual departmental letter of representation sent to the Deputy Receiver General for Canada and the Auditor General of Canada. The audit will provide support for the various representations that the department must make on its financial and other activities. Eventually, this information forms part of the Public Accounts of Canada. Accordingly, a number of departments have opted to conduct internal or external audits regularly on their revolving funds.

In addition to an audit of the revolving fund's financial statements, financial attest audits should be done to obtain observations on internal control weaknesses, together with recommendations for improvement.

Some of the criteria used to decide whether to use internal or external auditors include the following:

- availability of qualified internal audit resources;
- size and complexity of the revolving fund; and

- the need for arm’s length verification

The costs of conducting an audit are part of the operating costs of the revolving fund.

If the financial statements of the revolving fund have been audited, then the auditor’s complete opinion statement must be included with submission material forwarded to the Public accounts coordinating group.

Audits must review the revolving funds compliance to relevant Treasury Board policies and Receiver General directives covering the financial accounting and reporting practices of revolving funds, which govern disclosure and presentation in the Public Accounts of Canada.

The following model outlines a standard set of terms of reference for an audit engagement which was favourably reviewed by the Auditor General in a chapter of his November 1995 annual report:

- **audit title—**indicates the name of the fund and the fiscal year;

- **summary of requirements—**includes instructions to complete the audit and provide opinion; and

- **background information—**describes the operation and function of the fund (this may be especially useful for external auditors).

7041 Audit objectives

- The auditor should conduct a financial audit and express an opinion on whether the financial statements present fairly, in all material respects, the financial position, results of operations and changes in financial position of the revolving fund in accordance with the basis of accounting described in the note to the financial statements and with the policies applicable to a revolving fund.

- Present a management letter containing observations made during the attest audit describing any observances of weaknesses in internal control and system processes, along with recommendations for improvements.

- Assess compliance with GAAP, specific Treasury Board policies and Receiver General directives (specify selected policies and directives).

7042 Scope

Auditors are expected to do the following:

- review related central agency policies and internal instructions governing financial statements and reporting by a revolving fund for inclusion in the Public Accounts;

- review and evaluate the financial systems and internal controls in order to be able to express an audit opinion on the financial statements prepared in accordance with GAAP;

- verify the accuracy, completeness, valuation and presentation of assets, liabilities, income and other financial figures in accordance with generally accepted auditing standards;

- review the adequacy of financial statement disclosures including, such as, the entity's complete or segmented financial position, in order to assess the revolving funds continued viability; and

- review the established management control framework in relation to any policy or directives for which compliance is to be assessed.

7043 Role of the Auditor General

The role of the Auditor General is outlined in the *Auditor General Act*. The following is a brief summary of the verification and reporting activities that the Auditor General's representatives may conduct on any revolving fund:

- verify the legislative authority and mandate of the revolving fund;

- review the structure, activities, and purposes and objectives of the revolving fund;

- ensure that an audit (internal or external) was conducted and review the findings;

- ensure that the revolving fund maintains essential and complete records;

- ensure that the revolving fund has spent money with due regard for economy and efficiency;

- ensure that procedures are established to measure and report on the effectiveness of the revolving fund;

- ensure that there are proper controls to safeguard and control public funds and that these funds have been spent only where authorized; and

- conduct the review by statistically sampling any transactions deemed necessary.

7050 Winding up a revolving fund

When the Treasury Board and the department responsible for a revolving fund's operation decide to cease its operations, it is necessary to rescind the authority of the revolving fund as of a specific date.

The Treasury Board will approve the decision to close a revolving fund. The decision will identify a closing date in the fiscal year immediately following the fiscal year in which the operations ceased.

When authority to operate a revolving fund has been obtained from Parliament pursuant to the *Revolving Funds Act*, an *Appropriation Act* or other legislation, authority to discontinue operations of the fund must be obtained through an *Appropriation Act or an amendment to other legislation*.

The management of the revolving fund unit are required to provide the financial statements as of the closing date of the revolving fund unit.

The responsible department will be the first source of funds for any costs associated with winding up the revolving fund unit.

A submission to the Treasury Board seeking approval to discontinue revolving fund operations should disclose the following:

- the alternatives available, with a recommendation to continue the services provided, if appropriate; and

- information and recommendations necessary for the orderly closing out of the fund in particular, for the disposition of the assets of the fund.

The required vote wording to terminate a revolving fund should reflect the following:

> Vote No. — Name of the revolving fund — to terminate the operations of the (name of the revolving fund) and to repeal (name of ministry) Vote no. X, *Appropriation Act* No. X, 19XX-XX as at March 31, 19XX; or,
>
> Vote No. — Name of Revolving Fund — In accordance with section 12 of the *Revolving Funds Act*, 1985 R.S. c. R-8, to repeal section x of the said Act, as of March 31, 19XX.

7060 Merger of a revolving fund

The government, as a "shareholder," of two (or more) revolving fund entities, may decide to combine the resources, talents and risks of these under one revolving fund entity.

The term "merger" may be used in the legal form to describe the combination of two or more revolving fund entities into one single entity. For accounting purposes, the result will consist of a pooling of interests. Under a pooling-of-interest accounting concept, the combined revolving fund entity continues to be valued in accordance with established book values, subject to whatever adjustments may be required to assure a reasonably uniform application of GAAP.

The pooling-of-interests accounting treatment is supported by a reasoning that no new basis of accountability is required, since the two (or more) entities are continuing operations as one entity in a manner similar to the situation which existed in the past. The presumption is that there has been no purchase or sale of assets, but merely a merging of two (or more) formerly separate business entities.

Refer to the *CICA Handbook*, Chapter 1580, Business Combinations for a complete description of the application of the pooling-of-interests method.

The merger of revolving fund units must be authorized through an *Appropriation Act* or through some other legislative change approved by Parliament.

The combined revolving fund entity should reflect the assets and liabilities at the total book values recorded by the combining revolving fund entities at the time of merger. To ensure that the combined entities report on a reasonably uniform basis of accounting, retroactive adjustments may be needed. As well, the financial statements of the combined revolving fund entity will require a restatement for prior periods.

The ANCAFA of the combined revolving fund entity should of course, be equal to the equities of the combining entities. As well, the accumulated surplus/deficit and the contributed capital of the combined revolving fund entity must reflect the consolidation total accumulated surplus/deficit and contributed capital of the combined entities.

The statement of operations for the period in which the combination occurs and for prior periods should be reflected on a combined basis.

The method of accounting for the merger of two (or more) revolving fund entities should be disclosed in the financial statements of the combined entity at the end of in the accounting period in which the combination took place.

The results of operations are reflected only from the date of the merger. Consequently, financial statements showing the results of operations as though the entities had combined at the beginning of the fiscal period will help the reader understand and assess the financial statements of the entities that are going to merge or have already merged.

The combined revolving fund entity will be responsible for disclosing the information required by Chapter 1580, Business Combinations of the *CICA Handbook*.

7070 Control of the statutory drawdown authority

A statutory appropriation authorizes the revolving fund to make expenditures for specific purposes. This authority is a non-lapsing authority approved for such amount and time as provided for in the specific statute.

The Treasury Board manages a small operating reserve which is primarily used as a line of credit. The Treasury Board functions as a banker and gives the highest priority to bridge-finance projects with significant productivity payback. The department responsible for a revolving fund entity functions as a borrower who uses this line of credit (drawdown on the authority). The management of the revolving fund unit is responsible for repaying the advances made from this line of credit and with associated interest.

In rare circumstances, the Treasury Board may allocate funds from the operating reserve to establish a capital asset base.

The deputy head of the revolving fund’s host department is responsible for controlling the statutory drawdown authority. Financial authorities will be delegated to the management of the revolving fund unit who are responsible for fulfilling statutory requirements.

Whenever the cash requirements of a revolving fund unit exceed the annual drawdown authority agreed with the Treasury Board through the ARLU process, the deputy head of the department responsible for the revolving fund unit will be accountable for providing a report to the Estimates Division of the Treasury Board Secretariat. This report will be provided thirty days after the period that shows a use of funds exceeding the estimated annual drawdown authority and will include the reasons for this situation as well as an action plan to correct it. The Treasury Board Secretariat may require that a material shortage in the annual cash requirements be recovered from the departmental appropriation.

7080 Preparation of Estimates

The Estimates will reflect the starting date for the operation of a revolving fund following the approval by the Treasury Board. The revolving fund unit must make estimates to determine a legislative authority limit for spending money out of the CRF. To reiterate, the Treasury Board has to establish a drawdown authority value. The full costs of services or individual products must be known and used as a basis for budgeting and preparing the Main Estimates.

The Estimates Division of the Treasury Board Secretariat issues annual instructions on how to present revolving funds in the Estimates. These instructions are included in the Main Estimates call letter sent to the senior full-time financial officer of each department.

A revolving fund unit may be used to finance programs, activities within programs or sub-activities. If an entire program is funded through a revolving fund, supplement the basic program by activities table with another table that shows the operating surplus or loss of each activity of the program. A footnote to this table will reconcile the overall surplus or loss to the Estimates' cash requirements and make an appropriate reference to Part III of the Estimates for further information.

If an activity of a program is entirely financed through a revolving fund, that activity will be shown on a cash basis (for information purpose) in the program by activities table. This display will then be footnoted to relate the expected operating loss or surplus to the Estimates' cash requirements and to make proper reference to Part III for further information.

When part of an activity is funded through a revolving fund, a footnote to the table will disclose the expected operating surplus or loss, relate that balance to the Estimates' cash requirement or make suitable reference to Part III for further information.

The revolving fund entity must provide adequate financial data annually to the responsible department. Conversely, the responsible department must provide the revolving fund unit with appropriate feedback concerning the department's expenses, controls and other elements.

The Treasury Board Secretariat analyst will review the revolving fund plan and determine whether there is a projected increase in the use of the drawdown authority (in which case there would be a charge against the operating reserve) or whether there is a positive bottom line (in which case there would be a credit to the operating reserve). Any large in-year increases in the use of the drawdown authority would be included as an information item in the Final Supplementary Estimates, with a corresponding charge against the operating reserve. The Treasury Board is concerned about the implications of the revolving fund business plan for operating reserves.

7090 Performance bonds

A "performance bond" guarantees the performance of work under a contractual arrangement.

The particulars surrounding the use of performance bonds are covered in the Government Contracts Regulations and Treasury Board's policies on contracting. The revolving fund must comply with all appropriate contracting regulations and policies.

Performance bonds are normally required from contractors to ensure that there is money to pay subcontractors and to complete the job in the event of a default. The Crown self-insures, as defined in the statutory payment authority in the *Crown Liability and Proceedings Act*, so no additional insurance or deposit is required. Therefore, the Crown should not buy performance bonds.

7100 Year-end reconciliation

The ANCAFA information presented in the financial statements using the accrual basis of accounting has to be reconciled with the information based on the accounting policies and practices of the Government of Canada.. In the Accounts of Canada, transactions for revolving funds impacting the CRF are reported with departmental expenditures.

Two reconciliation tables are published with the financial statements in the Public Accounts. The first reconciliation is titled "Statement of authority provided (used)" in the current year. The following items make up the main categories involved in this reconciliation:

- net income (loss) for the year as reported in the statement of operations; and
- adjustments required to reconcile from the accrual basis to the modified accrual basis of accounting used in the Accounts of Canada, including the following:
    - items not requiring the use of funds (cash), such as amortization and provision of termination benefits;
    - net capital acquisitions that are accounted for as expenditures in the Accounts of Canada;
    - reversal of the working capital change; and,
    - any other gross sources and uses of funds reported in the statement of change in financial position (excluding those included above).

The reconciliation at this stage, has been converted to the Government of Canada accounting basis that is, the net of the revolving fund central account (expenditure), before year-end adjustments. The following transactions are processed in the Accounts of Canada, but not in the ANCAFA account, due to different the cut off accounting principles followed by revolving funds:

- the difference between current year's and previous years' net PAYE charges against the appropriation account after March 31; and
- the net of amounts credited to the appropriation account after March 31.

A second reconciliation table is also published in the Public Accounts of Canada called the "Reconciliation of unused authority." This table reconciles the balance in the ANCAFA account according to the financial statements with the amount of unused authority reported in the Public Accounts in each ministry summary. The ANCAFA account, as per the balance sheet, records the net amount of the revolving fund's non-lapsing authority that has been used. It does not reflect PAYE charges against and amounts credited to the appropriation account after March 31; however, such charges are included in the measurement of unused authority.

This reconciliation contains, where applicable, two types of transactions.

- PAYE charges against the appropriation account during the post-year-end period, in accordance with the Receiver General Directive on PAYE. These include amounts discharged after March 31 and recorded in the Accounts of Canada in the current reporting year.

- Amounts credited to the appropriation account after March 31, in accordance with Receiver General directives on year-end procedures and PAYE. These include amounts received and recorded in the Accounts of Canada by cash receipt, IS receipt, source 0050 journal vouchers and PAYE source 0042 journal vouchers.

The reconciliation must also report the amounts of authority granted by legislation (including any increase or decrease approved in subsequent *Appropriation Acts*) to ascertain the amount of unused authority to be carried forward to the following year.

Each month, you must do a reconciliation between the revolving fund expenditure account (central account in the responsible department's books) and the ANCAFA balance. At year end, this reconciliation will be published in the Public Accounts.

8000 Appendices

8100 Appendix A — Division of responsibilities and authority established by the Treasury Board

	Parliament	Treasury Board	Responsible department
Create/dissolve/amend	Approve	Approve	Prepare
Organizational tasks			
– Allocate responsibility		Approve	Prepare
– Delegate authority		Approve	Prepare
– Devise spending control mechanism		Approve	Prepare
Directives			
– Basis of accounting		Approve	Prepare
– Disclosure		Approve	Prepare
Appointments			
– Unit managers			Approve
Submissions/plans	Receive		
– Terms and conditions	(Parliament	Approve	Prepare
– Purpose	receives	Approve	Prepare
– Benefits	summary	Approve	Prepare
– Plans	material as part	Approve	Prepare
– Operating budgets ($)	of the Estimates	Approve	Prepare
– Capital budgets ($)	process.)	Approve	Prepare
– Performance indicators		Approve	Prepare
– Estimate short- and long-term demand		Approve	Prepare
– Resources acquired and obligations assumed		Approve	Prepare
– Drawdown	Approve	Approve	Prepare
– Annual requirements		Approve	Prepare
Reports			
– Year-end financial statements	Receive	Receive	Prepare
– Periodic and interim reports		Receive	Prepare

Audit and validation			
– Terms of reference		Recommend	Approve
– Selection			Approve
– Act on report			Approve
Ongoing approvals			
– Pricing		Approve	Prepare
– Service line change		Approve	Prepare
– Capital investment		Approve	Prepare
– Use of surplus		Approve	Prepare
– Write-offs of deficits	Approve	Approve	Prepare
– Amount of financial support		Approve	Prepare

"Prepare" means to develop the submission or propose action for approval.

"Approve" means, in the case of the Treasury Board, to approve with the submission presented by the preparer (generally the responsible department) before the fact. In the case of Parliament, it means to approve by a vote in the House.

"Receive" means to have knowledge by virtue of the matter being tabled; for instance, Parliament receives the annual statements of each revolving fund as part of the Public Accounts each year.

8200 Appendix B — Abbreviations in this guide

AC	Accounts of Canada
ANCAFA	Accumulated Net Charge Against the Fund’s Authority
AP	Accounts Payable
ARLU	Annual Reference Level Update
CAJV	Central Accounting Journal Voucher
CAS	Central Accounting System
CCAM	Corporate Cost Allocation Model
CEO	Chief Executive Officer
CICA	Canadian Institute of Chartered Accountants
COO	Chief Operating Officer
CP	Current Period
CPI	Consumer Price Index
CPP	Canada Pension Plan
CRF	Consolidated Revenue Fund
CY	Current Year
EBP	Employee Benefit Plans
EI	Employment Insurance
FAA	Financial Administration Act
FTE	Full-time Equivalent
GAAP	Generally Accepted Accounting Principles
GST	Goods and Services Tax
GST-RAA	Goods and Services Tax - Refundable Advance Account
IMAA	Increased Ministerial Authority Agreement
IS	Interdepartmental Settlement
MYOP	Multi Year Operational Plan
OGD	Other Government Departments
PAIM	Public Accounts Instructions Manual
PAYE	Payables at Year-End
PAYE-OGD	Payable at Year-End - Other Government Department
PODD	Payment On Due Dates
PSAA	Public Sector Accounting and Auditing Handbook
PSSA	Public Service Superannuation Act
PY	Prior Year
PY’s	Previous Years
PWGSC	Public Works and Government Services Canada
QPP	Quebec Pension Plan
RAYE	Receivables at Year-End
RG	Receiver General for Canada
RF	Revolving Fund
SDBA	Supplemental Death Benefit Act
SO	Standard Object
SOA	Special Operating Agencies
TB	Treasury Board
TBS	Treasury Board Secretariat

8300 Appendix C — References

Accounting for Secondment Agreements (discussion draft paper), 1994

Canadian Institute of Chartered Accountants. *CICA Handbook*.

Canadian Institute of Chartered Accountants. *Financial Reporting in Canada*

Canadian Institute of Chartered Accountants. *Public Sector Accounting and Auditing (PSAA) Handbook*

Consulting and Audit Canada. *Special Operating Agencies, Some Answers to Your Questions*, August 1993

Dingwall, John. *Special Operating Agencies: Financial Issues*. Canadian Centre for Management Development, May 1995 (draft)*Guide to the Costing of Outputs*

Public Accounts Instructions Manual (PAIM)

Skinner, Ross M. *Accounting Standards in Evolution*, 1987.

Treasury Board. Chart of Accounts

Treasury Board. Debt Write-off Regulations (Justice department)

Treasury Board. Policy on Accounting for Capital Assets (draft)

Treasury Board. Policy on the Application of the Goods and Services Tax and the Harmonized Sales Tax in the Departments and Agencies of the Government of Canada

Treasury Board. Policy on Cost Recovery and Charging Policy, April 1997

Treasury Board. Policy on Special Revenue Spending Authorities

Treasury Board. *Submissions Guide*

Treasury Board Secretariat. *Alternative Delivery Mechanisms*, 1992

Treasury Board Secretariat. *Becoming a Special Operating Agency (SOA)*, July 1991

Treasury Board comptrollership Manual